Position Paper on Federal Higher Education Financial Aid Programs

Texas Association

of Student Financial Aid Administrators

(TASFAA)

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TASFAA Texas Association of Student Financial Aid Administrators

EXECUTIVE SUMMARY

Postsecondary institutions in Texas continue to face serious challenges in enrolling, retaining, and graduating students, especially those from historically underrepresented populations. These challenges relate to the level of academic preparedness, the increasing cost of education, population changes, demographic trends, the continued reliance on federal student financial aid and federal student loans (debt), and the difficulty borrowers have in repaying their student loan debt. Still another challenge is a lack of comprehensive programs that provide financial literacy and debt management counseling to students to help insure they can manage their student loan debt after completing their education.

Texas differs greatly in these respects from most other states. We have more postsecondary educational institutions, a decentralized system of postsecondary education, a large and diverse population, and a low state financial aid/low tuition model. These circumstances have produced a high reliance on debt as the primary financing mechanism for attending and graduating from college. It is this last factor that prompts the Texas Association of Student Financial Aid Administrators (TASFAA) to respectfully submit these proposals to the Texas Congressional Delegation and House and Senate Committees in preparation for the Reauthorization of the Higher Education Act.

In doing so, we are acutely aware of the budgetary issues facing this, prior, and future Congresses and the reluctance to increase appropriations for existing and new programs. However, TASFAA shares the opinion, that an educated population is an absolute requirement for the social and economic well-being of the country and should be among the highest priorities of the Congress. Policy-making through the annual budget process should stop. Instead, changes and improvements to the Higher Education Act should be made through the Reauthorization process; where policy-making to improve programs supersedes changes intended to control costs and save money.

RECOMMENDATIONS

Reform Federal Student Financial Aid Programs

Hopefully any reform will focus on helping qualified students gain access and complete postsecondary education through simplification and efficiency reforms. Such measures should be coupled with fully funding programs and implementing cost effective programs to control postsecondary education costs and reduce the reliance on debt as the primary funding mechanism to pay for college costs.
Because of the importance of these programs to Texas' students and their families, the Texas student financial assistance community strongly encourages the Texas Congressional Delegation to carefully consider any proposals to "reform" these programs. "Reform" measures, or amendments to these programs through the annual budget/appropriations process, should be coupled with estimates of their impact on Texas while considering such proposals.

Pell Grant Program

The Pell program has, in the last five years, tripled in size to roughly $40-billion a year. It has stabilized in recent years, partly as a result of declining higher education enrollments and overfunding by Congress based on dated estimates from the Congressional Budget Office in 2011 and 2012. The program is currently estimated to run substantial surpluses in 2013 and

2014, with a small deficit of possibly $2 billion in 2015, based on current estimates. Over 682,000 Texas students received $2.4 billion in need-based Pell Grants during AY2011, compared, for example, to the TEXAS Grant program at $614.7 million serving 106,000 students over a 2-year biennium.

Demand and need will continue to outpace supply with respect to the state programs. We, therefore, strongly urge the Delegation to protect the Pell Grant program as a priority and work toward designating the program an entitlement or index the maximum award to a suitable cost factor. Additionally, the program could be improved for all students, but especially those who may not be able to attend as full-time students.

TRIO, GEAR UP, Title III, and Title V

Minority-Serving Institutions (MSIs) constitute one-third of Texas' 140 public and private nonprofit colleges and universities. More than 460,000 students attend Texas MSIs. As indicated above, non-White populations in Texas are rapidly growing, and are expected to continue to outpace White population growth. The State of Texas benefits from the rich depth and breadth of MSIs. The state is home to an estimated 56 Hispanic Serving Institutions (HSIs), nine Historically Black Colleges and Universities (HBCUs), one Predominantly Black Institution, and 45 emerging HSIs. St. Phillip's College in San Antonio has the distinction of serving as both an HBCU and an HSI. The nine HBCUs had a combined Fall 2011 enrollment of 31,504 students, of which 62% were African American, 21% Hispanic, 14% White, and the remaining 3% Asian American and foreign students.

For these reasons, we strongly urge the Delegation to resist any efforts to diminish these programs for budgetary reasons, and, during the HEA reauthorization process, work to increase appropriations for and expand these programs. In particular, it is critical to protect GEAR-UP, which provides outreach and awareness programs to middle and high school students.

Student Loan Debt and Bankruptcy

The bankruptcy exemption for private student loans was part of the Bankruptcy Abuse Prevention and Consumer Protection Act.

Federal loans account for 85 percent of the student loan market, and are also not eligible for discharge in bankruptcy. However, federal student loans have income-based repayment options and carry interest rates far lower than private student loans. Federal and state government programs also offer loan forgiveness for people who enter into certain public service programs.

The Consumer Financial Protection Bureau and the U.S. Department of Education said Congress should consider revisiting the bankruptcy exemption for private student loans.

For the past three sessions of Congress, Sen. Dick Durbin (D-Ill.) has introduced legislation to remove the exemption on private student loans. S 114 – The Fairness for Struggling Students Act – is the most recent version filed in the 113th Congress and will be refilled during the 114th Congress.
It is time to restore this benefit. It makes no sense that credit card debt used to finance a postsecondary education can be discharged through bankruptcy, but not a student loan debt.

Exemption of State-Based Student Loan Programs from Preferred Lender Regulations

By definition, a preferred lender list is a list of lenders that a college suggests its students consider when taking out student loans. Students who receive a "preferred lender" list from a school are not bound by the list. Borrowers can choose from any federally-approved lender and may often find a better deal outside the list.

This requirement was added to the HEA several years ago when a handful of private lenders were sanctioned for deceptive loan practices. Among other practices, they were sharing a portion of their loan revenue with some school's financial aid office, which is a clear code of conduct violation. These financial aid officers were guiding students toward loan products that would offer them kickbacks. Fortunately for students today, these unethical practices have come to a halt.

The issue here, however, concerns state-sponsored student loan programs offered through non-profit state agencies, as opposed to student loans originated through private for-profit entities. Because of this key difference, these programs should be specifically exempted from federal regulations requiring adherence to preferred lender list regulations. These regulations were intended to apply to alternative loans originated by private, for-profit lenders to prevent fraud and abuse. Removing alternative loan regulations for state loan programs would allow financial aid officers at institutions to fully promote all of a State's loan programs, including Texas' B-On-Time, without legal uncertainties.

These programs are offered by public entities, using public funds, or bond revenue backed by the full faith and credit of a State. They often offer the lowest interest rates and best borrower benefits of any alternative loan programs available. They also operate under the oversight of state executive and legislative branches of government.

Two bills addressing this issue are pending in the Congress – HR 1529, the Student Aid Expansion Act of 2013, and HR 3371, the State Loan Access and Student Protection Act.

The Texas student financial aid community strongly urges the Texas Congressional Delegation to support legislation to correct the oversight to exempt these type of state-sponsored student loan programs.

Income Tax on Loan Forgiveness

This issue resonates in Texas because of state policymakers' historical position to rely on the federal student financial assistance programs (including federal student loans) to provide the bulk of funding to provide financial access to postsecondary education (85% from federal programs and 67% from federal student loans contrasted to the national rates of 76% and 52%, respectively). It is, therefore, reasonable that the Congress and Administration may seek amendments to the Higher Education Act that will assist those borrowers who qualify for forgiveness of their loan debt, either through public service employment, on-time repayment (as with the B-On Time program), or some other method by exempting the amount forgiven from being treated as income for tax purposes. We urge the Delegation to support such efforts.

Student Loan Repayment Plans

Today there are seven federal student loan repayment plans, including income-based, income-contingent, and income-sensitive plans. These plans still assume two federal student loan programs – FFELP and FDLP – even though FFELP originations ceased in 2010.

There are too many repayment plans that are redundant, confusing, complex, and flawed in their structure. The Congress should repeal the existing programs and establish a new and improved universal IBR or ICR program along with a standard repayment plan that is for a set number of years at a fixed interest rate. Sufficient flexibility should be implemented to permit the borrower to choose the plan that best fits their economic situation and allows the opportunity for adjustment between the two plans during the life of the repayment period to correspond with changes in income and circumstances.

The income-based plan should include improvements to the current Pay as You Earn plan proposed in the Administration's FY2015 budget, along with recommendations proposed by several higher education associations and think tanks. The proposed improvements for new loans originated after enactment of the legislation would:

- Cap Public Service Loan Forgiveness at $30,000, corresponding to the maximum in Pell Grant aid a student could ever receive;
- Create two-tiered loan forgiveness: 20 years for initial balances less than $40,000, and 25 years for those above $40,000;
- Create a higher payment rate for borrowers earning more than $35,000 a year;
- Eliminate payment caps. Payments are always based on income; and,
- Make IBR payments for married borrowers based on combined household income (but halve household income if both are paying loans through IBR).

Community College to Career Fund, Measures of Success, and Cohort Default Rate

In its budget submission for the 2013 fiscal year, the Administration proposed $10-billion for job-training programs.

The bulk of the job-training money would be for the $8-billion "Community College to Career Fund". The fund would provide money to community colleges and states to form partnerships with businesses to train an estimated two million workers in high-growth and in-demand areas.

The proposed new fund would train workers for unfilled jobs through apprenticeships, on-the-job training, and internships. It would also support industry efforts to develop skills consortia, standardize industry certifications, develop new training technologies, and offer grants to state and local governments that encourage companies to locate in the United States.

Under the Administration's plan, states, industries, and colleges that were successful in placing workers in jobs would be eligible for additional "pay-for-performance" money. The fund would also finance a six-week online training course on entrepreneurship for up to 500,000 new entrepreneurs and an intensive six-month entrepreneurship-training program for 100,000 small-business owners.

With Texas' community colleges enrolling 48% of Texas postsecondary education students, and 53% of public institutional enrollment, programs like the CCCF would be a boon to the work that our colleges are already doing to help address the skills gap and to provide economic opportunity for the many people still struggling in today's economy.

Measure of Success and Completion

Many students who attend community college transfer to other institutions to complete their degree or certificate. Unfortunately, the Department of Education has excluded students who "transfer-out" from a college from the formal completion and graduation rates for that institution, resulting in artificially low and incorrect completion rates.

The American Association of Community Colleges and the Association of Community College Trustees have developed a Voluntary Framework of Accountability (VFA) that delineates short-term progress and long-term outcomes for students. It also provides more accurate metrics for community colleges that should help them improve their performance. Congress should examine these efforts as examples for establishing a more accurate method of performance-based success for students who begin their postsecondary educations at community colleges.

A New Cohort Default Rate Calculation

Current cohort default rates (CDRs) assess institutional eligibility for Title IV financial aid based on the share of a school's borrowers who default within the first three years of repayment. Colleges with CDRs above certain thresholds may face sanctions that end their eligibility for federal student aid. However, CDRs are insufficient sources of consumer information about the situation that students – both borrowers and non-borrowers – face, because they exclude non-borrowers. The vast majority of community college students do not borrow.

The Congress should reexamine this method of determining a school's continued eligibility for participation in the federal Title IV programs and create a new Student Default Risk Index (SDRI), as recommended by the American Association of Community Colleges. Under this new calculation, each school's three-year Cohort Default Rate would be multiplied by the percentage of students at that school who rely on federal loans.

Student Loan Default Prevention

As is the case with the redundant student loan repayment plans, with the end of the FFELP in 2010, the next reauthorization needs to include a complete rewriting of Title IV, Part B of the HEA and retain those elements which were purposed to provide support to institutions to prevent student loan defaults. The need for customized, locally-provided support services and programs, including college outreach and awareness, student loan counseling, default prevention, debt management, and financial literacy services tailored to help students and borrowers while they are enrolled continues under the FDLP.

Regardless of what rate students pay on their loans, they need better financial counseling before and when they first take on the loans, throughout their education, and when they leave school.

Federal regulations require students to sit through online counseling sessions before receiving their federal loans when they begin school, but the sessions are very text-heavy and there's no way to ensure that students absorb the information or that students themselves, rather than their parents, are completing the required sessions.

At a minimum, schools should have the flexibility and choice to require students likely to default on their loans to undergo additional counseling during their undergraduate years. Metrics exist to identify students likely to default.

Additionally, colleges don't have any way to hold student borrowers accountable who do not complete exit counseling, like withholding diplomas or transcripts.

State-based not-for-profit organizations have nearly 50 years of experience in providing specialized debt management support that includes paying for college web sites and financial literacy services. These services encompass: curriculum on saving for college and understanding credit; assisting with entrance and exit interviews; providing online debt management counseling and repayment calculators; creating default aversion programs; and, counseling delinquent borrowers and assisting them in obtaining deferments and evaluating repayment options. In Texas, these services are best delivered at the local level, and there are no similar services currently provide by the Federal government.

TASFAA encourages the Congress to incorporate a section into the HEA (perhaps a new Part B) that permits the Secretary to contract with these state non-profits to implement and administer these programs.

Finally, TASFAA is grateful for the opportunity to submit these recommendations on strengthening federal student financial aid programs. Its leadership stands ready to discuss them with legislators and/or legislative staff at their convenience. For more information, please contact:

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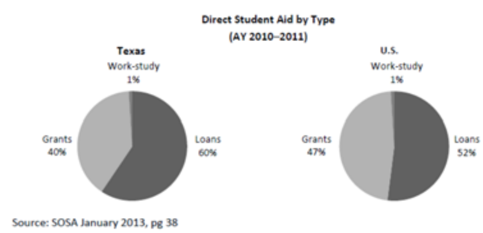
INTRODUCTION

Both across the nation and here in Texas, urgent and unprecedented challenges to higher education threaten our prospects for achievement, prosperity, and social well-being. Tuition rates are high, and graduation rates are low. Student loan debt has surpassed one trillion dollars, while the percentage of the population with a bachelor's degree lingers at around 28 percent[1]. Texas students account for an estimated 7 percent of the national student loan burden, having accumulated a massive $70 billion debt that is disproportionate even to its 1.6 million postsecondary students[2]. With real incomes long stagnating and household wealth only beginning to recover from the recession, many need-based grant programs struggle just to maintain level funding. Even in the absence of the looming sequester, education budgets nationwide are stretched to the limits. The populations that demographers report are growing most rapidly--those on whom the quality of our future largely depends--are those both historically and currently most underserved by our education system. All told, it seems that higher education is quickly losing its ability to serve its historical role as the engine of broad-based prosperity and indispensable lever of social mobility.

We as Texas educators, advocates, researchers, and citizens have witnessed some of the worst consequences of these troubling facts and trends. It seems that in our state, each national challenge to education becomes magnified by our population's size, youth, and growth rate[3] and by our lingering history of poor socioeconomic performance. Once a significant bargain, our tuition rates have increased to about 94 percent of the national average, and the gap continues to shrink[4]. Our students tend to be less prepared for postsecondary education as evidenced by lower than average test scores and college retention rates[5]. At 40 percent, Texas' six-year graduation rate for baccalaureate programs is a full six percentage points lower than the national average[6]. Texas college students rely on loans for 60 percent of their direct student aid versus 52 percent nationally[7]. So while tuition rates were lower, the median Texas student borrower owed about $1,400 more in student loans than the U.S. median student borrower upon graduation with a baccalaureate degree[8]. The emerging national consensus around cost, debt, and completion as the



[1] U.S. Dept. of Commerce, U.S. Census Bureau, American Community Survey. 2009. Educational Attainment in the United States: 2009. http://www.census.gov/prod/2012pubs/p20-566.pdf.

[2] This figure is based on both per capita student loan debt for 2013 Q2 using the Federal Reserve Bank of New York's *Quarterly Report on Household Debt and Credit* and the author's calculations based on U.S. Census population estimates, Texas Department of State Health Services (DSHS) population projections, and Federal Reserve Bank of New York by-county estimations of the credit-report-having population of Texas.

[3] U.S. Census Bureau, Press Release: December 29, 2012. http://www.census.gov/newsroom/releases/archives/population/cb12-250.html.

[4] TG, State of Student Aid and Higher Education in Texas, January 2013: pp. 35.

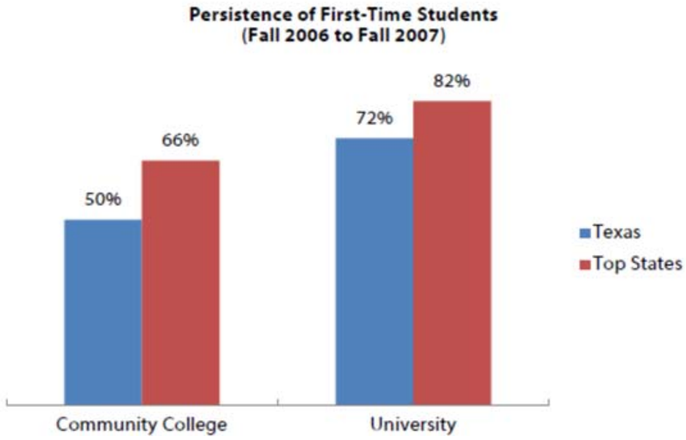
[5] *Ibid* pp. 25-27.

[6] U.S. Dept. of Education, National Center for Education Statistics. 2011. Integrated Postsecondary Education Data System. http://nces.ed.gov/ipeds/.

[7] TG, State of Student Aid and Higher Education in Texas, January 2013: pp. 38.

[8] U.S. Dept. of Education, National Center for Education Statistics. 2009. Baccalaureate and Beyond Longitudinal Study. http://nces.ed.gov/surveys/b&b/.

key areas of concern for higher education in this decade only serves to confirm the magnitude of the issues we in Texas have faced for years.



Source: TG, State of Student Aid and Higher Education in Texas, January 2013: pg 25

Serious fiscal challenges threaten to intensify the already troubled education system in Texas, particularly for the least well-off among us. In keeping with the national trend toward state divestment from higher education, Texas cut higher education funding by about $1 billion in the 82nd legislative session[9], with the centerpiece TEXAS Grant program taking a ten percent cut that brought the award rate to 30 percent of eligible new students[10]. Public school funding has fallen to levels that State District Judge John Dietz, after hearing substantial testimony from the state and numerous school district representatives, determined to be in violation of the constitutional obligation to provide equitable, adequate education to our young people[11]. While some of the funding was restored by the 83rd Legislature, college readiness and completion rates in Texas are already lower than the national average. If the public schools charged with preparing our students for further education lack adequate resources, this issue will only grow more prevalent, expensive, and damaging to Texas' long-term prospects.

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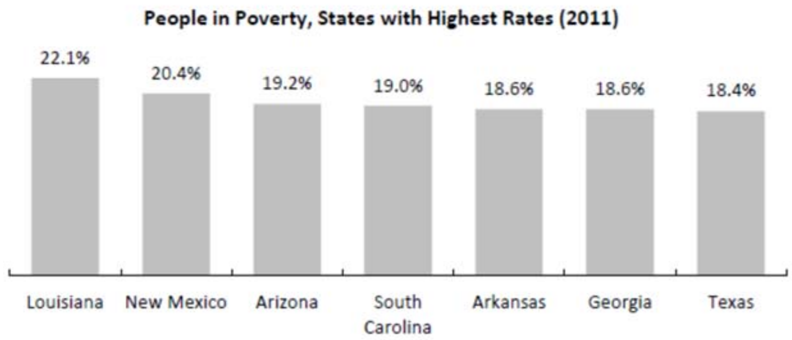
[9] Texas State Historical Association. 2012. Texas Almanac, Recent Developments in Texas Higher Education. http://www.texasalmanac.com/topics/education/recent-developments-texas-higher-education.

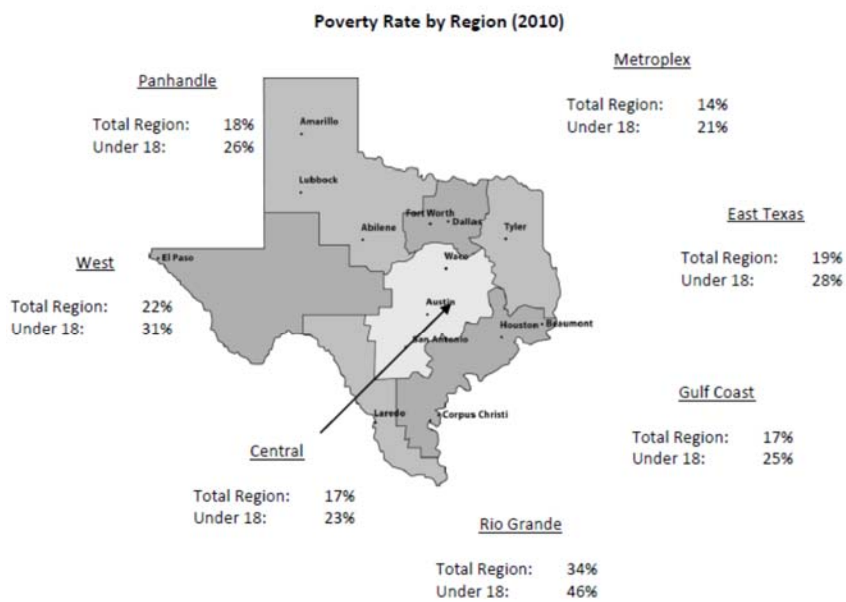
[10] Texas Higher Education Coordinating Board. 2011. Overview: TEXAS Grant. http://www.thecb.state.tx.us/download.cfm?downloadfile=85CCAF6B-A4AA-8D8A-0A5FA337BC7C9300&typename=dmFile&fieldname=filename.

[11] Lindell, Chuck, Austin American-Statesman, "Judge: Texas school finance system unconstitutional", August 28, 2014. http://www.statesman.com/news/news/judge-texas-school-finance-system-unconstitutional/nhBWz/.



Source: U.S. Census Bureau, Current Population Survey, 2011 Poverty Tables, Poverty Status by State (Sample Person Count, 100 Percent of Poverty, All Ages)

That our poverty rate is the seventh highest in the nation and the highest among the six largest states[12] seriously exacerbates ongoing educational challenges, including low attainment levels[13]. As shown below, poverty rates vary by region with over one-third of Rio Grande residents living in poverty. However, across all regions, one trend is unwavering—the child poverty rate is considerably higher than the overall rate. Within Texas, over 25 percent of children live in poverty. Texans, especially those with children, tend to be ill-equipped to compensate for decreased public funding, which places added importance on adequate appropriations for education and other service institutions.



Source: Poverty rates by region: U.S. Department of Agriculture, Economic Research Service, 2010 County-Level Poverty Rates for Texas

[12] U.S. Census Bureau, Current Population Survey. 2011. Poverty Tables, Poverty Status by State (Sample Person Count, 100 Percent of Poverty, All Ages). http://www.census.gov/hhes/www/cpstables/032012/pov/POV46_002_100125.htm.

[13] U.S. Census Bureau. 2012 Statistical Abstract, Educational Attainment by State: 1990 to 2009. http://www.census.gov/compendia/statab/2012/tables/12s0233.pdf.

While the conditions above describe how Texas sits at the intersection of current national challenges to higher education, it is our demographic trends that establish the state as a microcosmic preview of national challenges to come. Texas is already a majority-minority state with Hispanics accounting for 48 percent of public K-12 enrollment and 64 percent of prekindergarten enrollment.[14] Our state will see a Hispanic plurality by 2017 or 2019 and a Hispanic majority by 2036 or 2040, depending on migration trends in coming years[15]. Policymakers on the national scene have discussed the need to prepare our social infrastructure to serve a population with growing numbers of Hispanics and other historically underserved groups. In Texas, the time to prepare has come and gone, and the consequences of our institutions' inability to adapt are already taking shape.

In our limited experience with the new demographic landscape, we have already learned firsthand the crucial need to rethink strategies for access and achievement at all levels of education. African-Americans and Hispanics constitute about 60 percent of Texas public high school students but 55 percent of graduates[16], 43 percent of postsecondary students, and just 39 percent of all baccalaureate, associate and certificate degrees awarded[17]. This situation is not only unacceptable on its face, but also both socially and economically damaging for our state in the long run. Given that the Census Bureau currently projects the U.S. white, non-Hispanic population to fall in relative and absolute numbers starting in 2024 and the nation to reach majority-minority status by 2043[18], Texas can be thought of as quite literally “ahead of the curve” with respect to national demographic change. As such, our difficulty in educating rapidly increasing numbers of young people should be cause for both concern and attention at the national level.

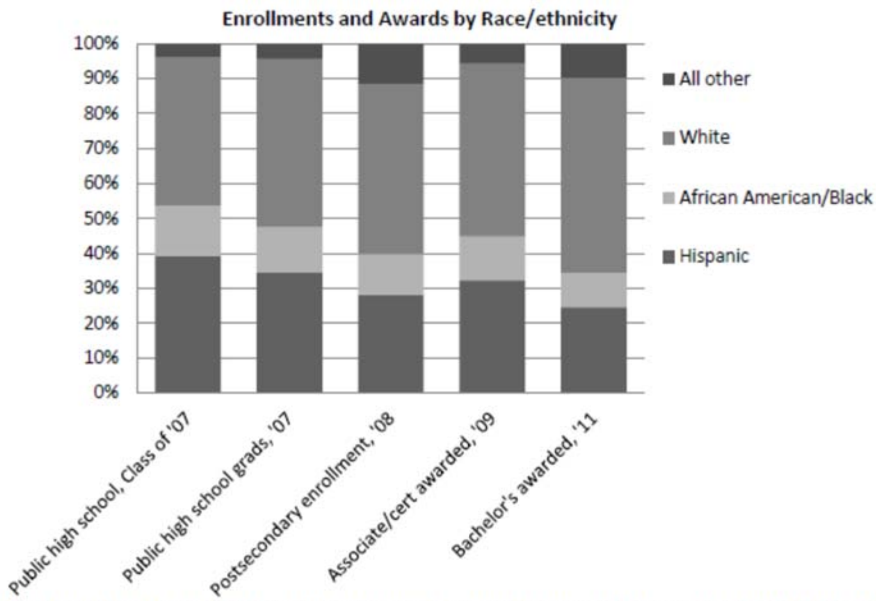
[14]Texas Education Agency. 2011. Enrollment in Texas Public Schools 2010-2011: pp. 35. http://www.google.com/url?q=http://www.tea.state.tx.us/acctres/Enroll_2010-11.pdf&sa=U&ei=S10VUceTBcWLqgHj1YCYDA&ved=0CBsQFjAB&usg=AFQjCNHfgamWQO3_2SRLSbD5IfbKy5EH5g.

[15] Texas State Data Center, Tables for Texas Population Projections. http://txsdc.utsa.edu/Data/TPEPP/Projections/Tables.aspx.

[16] Texas Education Agency, Secondary School Completion and Dropouts in Texas Public Schools 2010-2011, July 2012. http://www.tea.state.tx.us/acctres/DropComp_2010-11.pdf.

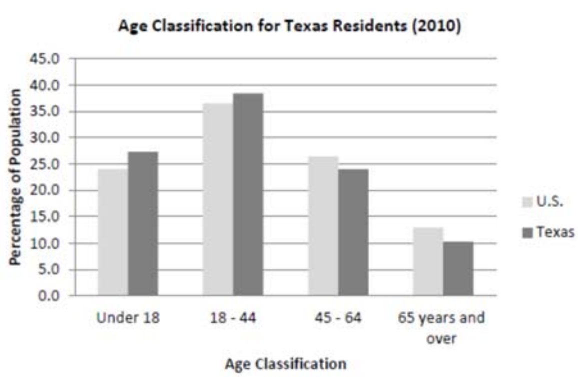
[17] Texas Higher Education Coordinating Board. 2011. Closing the Gaps Dashboard. Accessed February 20, 2012. http://reports.thecb.state.tx.us/approot/closingthegaps/ctg_main.htm.

[18] U.S. Census Bureau, Press Release: December 12, 2012. http://www.census.gov/newsroom/releases/archives/population/cb12-243.html.



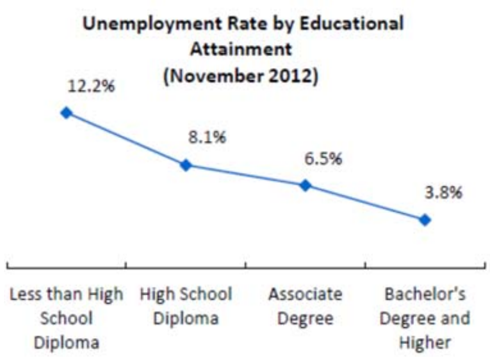
Note: Taking higher level cohorts from later years avoids overstating the increase in underrepresentation of students of color that would occur in a single year snapshot due to rapid growth in high school students of color. Sources: High school data: Texas Education Agency, Secondary School Completion and Dropouts in Texas Public Schools 2010-2011, July 2012. <http://www.tea.state.tx.us/acctres/DropComp_2010-11.pdf>; Postsec. data: Texas Higher Education Coordinating

There is one key demographic area in which Texas differs significantly from the nation both as it looks today and as it will look in the decades ahead; age. Like the United States as a whole, Texas is growing older, but we are doing so far more slowly than most states. From the standpoint of social policy, this relative youth is an invaluable resource. We as a nation have long relied on the achievements of each new generation of young adults to drive economic growth, renew our innovative, entrepreneurial spirit, and do their part to maintain the social safety net. Slow population growth will threaten each of these concerns at the national level, but Texas is fortunate enough to host the second-youngest population in the nation. In stark contrast to many other states and regions, Texas has the young people necessary to replace the aging baby boomers currently exiting the workforce.



Source: U.S.Census Bureau, *2010 Census Summary File 1.*

The rising group of young Texans can deliver these larger social and economic benefits if, and only if, they are able to fulfill their own potential in the classroom and workplace. As a result of this necessity, combined with this simple fact that the majority of our young population is Hispanic and concentrated in major urban areas, we must redouble our efforts to refocus the terms of the education policy debate on historically underserved populations. The previous paragraph stated that Texas' relative youthfulness distinguishes it from both current and future U.S. demographics. However, Texas again mirrors the nation's future in the growing proportion of Hispanics among all children. In a sense, the future national initiative to more seriously consider the needs of Hispanic students is more pressing than the current need to do the same in Texas. As the national ratio of young to old continues to decrease, the relative demand made on each individual young person to the overall social and economic endeavor increases. In Texas, to succeed in providing quality education that prepares all students for productive, well-paying jobs means setting the stage for an economic and social windfall. For the nation as a whole, the same sort of success may barely serve to compensate for the consequences of an aging population, shrinking workforce, and slowing economy.



Source: Bureau of Labor Statistics. "Employment Status of the Civilian Population 25 Years and Over by Educational Attainment," August 2011 (http://www.bls.gov/news.release/empsit.t04.htm).

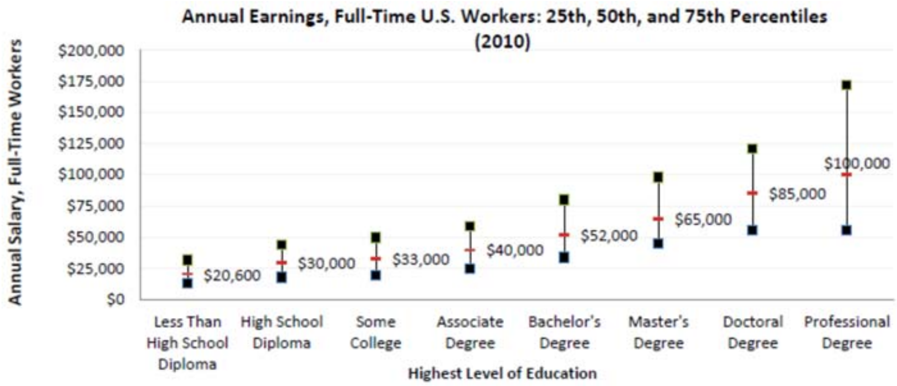
Even absent such long-term, population-wide concerns, the positive incentive—i.e., the return on investment—remains more than sufficient to spur us to improve higher education in Texas and across the United States. The benefits of college education are as numerous as they are well-documented. College graduates earn more money and are less likely to be unemployed[19]. They get sick less often[20] and stay more involved in their communities[21]. Perhaps most significantly, children of parents with an associate degree or higher are 25 percent more likely to begin postsecondary education at a four-year institution and 16 percent more likely to finish any

[19] U.S. Census Bureau. 2012. The Big Payoff: Educational Attainment and Synthetic Estimates of Work-Life Earnings, Day and Newburger. http://www.census.gov/prod/2002pubs/p23-210.pdf.

[20] Georgiou, CC et al, "Among young adults, college students and graduates practiced more healthful habits and made more healthful food choices than nonstudents", J of the American Dietetic Assoc [1997, 97(7):754-759]. http://europepmc.org/abstract/MED/9216552/reload=0;jsessionid=Bfgxn4khaM1yh5DWKF59.0.

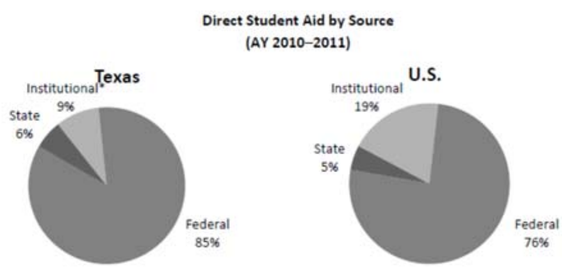
[21] Bowen and Bok, The Shape of the River, Princeton UP 1998.

academic program within six years[22]. One college graduate can change the fortunes of a family for generations; a critical mass of graduates can transform an entire community.



Source: U.S. Census Bureau, American Community Survey 2010 (http://www.census.gov/acs/www/).

If a college education can provide such desirable benefits, then its opposite—no degree where there might otherwise have been one—must be seen as a great failure. Even a small margin of "missed" degrees among a population or community is an immense opportunity lost, if not something of a social disaster. The future success of our state is what is at stake as Texas works to meet these challenges, and it would be neither prudent, effective, nor even truly possible to meet them competently without collaborating both within and beyond our borders. In 2003, underfunded and newly deregulated Texas public universities began increasing tuition rapidly without substantial set-asides for aid, leaving their students to rely increasingly on the federal government for financial support. Today, most grant money and almost all student loan dollars come from the federal government, and these loans account for a disproportionate amount of all Texas direct aid funding. As the funding source breakdown below shows, 85 percent of student aid in Texas as of AY 2010 - 2011 came from federal sources, compared to 76 percent nationwide. As other states attempt to manage severe budget deficits, students around the country are also moving toward greater reliance on federal funds (a ten percent increase since 2008)[23].



*Private institutional aid in Texas is for AY 2009-2010

Source: SOSA January 2013, page 37

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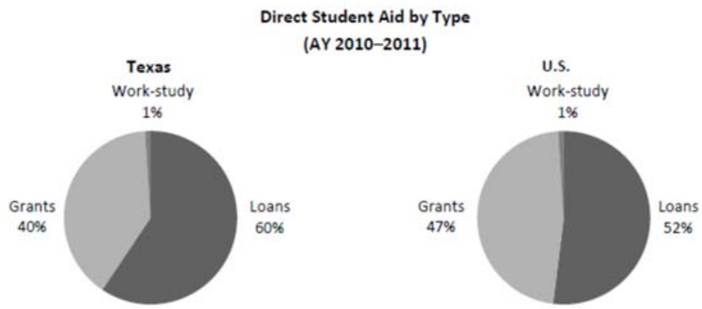
[22] U.S. Dept. of Education, National Center for Education Statistics, 2003-2004 Beginning Postsecondary Students Longitudinal Study, Second Follow-up (BPS:04/09).

[23] The College Board. 2012. Trends in Student Aid 2012. http://trends.collegeboard.org/sites/default/files/student-aid-2012-full-report-130201.pdf.



Source: SOSA January 2013, pg 38

Federal programs play an enormous role in encouraging college access nationwide, but this role is even more crucial in Texas. After all, approximately one in ten people in the U.S. under age 18 live in Texas and will probably rely disproportionately on federal aid, especially federal loans[24].

The Texas higher education system resembles that of a developed western nation more than it does most other U.S. states. Spread out among Texas' more than 261,000 square miles, an area inhabited by more than 25 million citizens, are 148 public and private non-profit postsecondary educational institutions. These institutions include 50 community college districts with 73 campuses, 38 public four-year universities, 39 private four-year universities, 4 public technical colleges, 10 health-related institutions, and 70 Minority Serving Institutions. There are 1.6 million postsecondary students in Texas, nearly a third of who rely on federal student loans annually. In essence, Texas contains a nation's worth of higher education institutions. As the second largest postsecondary student population in the country, Texas students represent an enormous stakeholder group in federal education policy. When a federal decision is made, much of its total effect is on Texas students. The dependence of this immense student population on the United States government further amplifies its relative "share" in the outcomes of federal decision making. Furthermore, this population does not mirror the nation as a whole, but rather differs significantly in ways that reflect key national demographic trends. A large, disproportionately reliant constituency with distinct needs and concerns deserves to be heard, and heard loudly, in the conversations that sway its future.

As argued above, trends in Texas higher education today both magnify current national issues and portend those still on the horizon. Not without a measure of foreknowledge, Texas is currently undergoing a collision of challenges to its ability to provide higher education to its citizens. We are faced with the gargantuan task of serving more students, slowing tuition increases, boosting quality and completion rates, expanding need-based grants, containing student debt, preventing student loan default, retraining a largely high school educated workforce for an evolving economy, and dramatically increasing participation and achievement among fast growing and historically underserved populations. Facing these challenges in the

[24] The Annie E. Casey Foundation, Kids Count, Total population by child and adult populations (number)-2011. http://datacenter.kidscount.org/data.

midst of a historic budget crunch sets the stage for an attainment dip that will impact our social and economic well-being for decades to come.

On the other hand, it is on account of these same circumstances that Texas must seek not only a place at the table, but also a vocal and visionary leadership role. The challenges to access, affordability, and completion currently facing the students and families of Texas will soon affect the nation as a whole. By focusing the terms of the debate toward our own circumstances, a Texas-based financial aid coalition would simultaneously turn the debate toward evidence-based, forward-thinking national solutions. As a state, Texas has not yet lived up to its potential to serve as the model of adaptive, innovative education policy that our nation so desperately needs for the years ahead, but it must. The alternative scenario, in which we become a grim warning of the failure to act, cannot be an option. Surmounting state and national challenges to higher education is a daunting task that will require cooperation and coordination from all involved. Doing so is essential if we are to maintain and improve our ability to serve today's students and those of generations to come.

ISSUES

All of the circumstances described above concerning costs, population changes, the disproportionality among state and federal student financial aid and the distribution of funds among need-based aid (i.e., grants, loans, and work-study), and demographic trends point to the absolute necessity of, at the very least, maintaining the federal Title IV student financial assistance programs. This need also includes maintaining those programs provided under Title III and Title V of the federal Higher Education Act to supplement the state, institutional, and family financial contributions to meet the rising costs of obtaining a postsecondary education in Texas.

Texas has historically been a "low tuition-low financial aid" state because in the eyes of state policymakers everyone, regardless of their socio-economic status, benefits from such a policy. Of course, this vision is not today's reality as most of the actual cost of attending college and living away from home is not controllable by policymakers (i.e., room and board, books and supplies, travel, etc.). As a result, Texas students and families who require financial assistance are highly dependent on federal student financial aid. This reality is why the reauthorization and improvement of the Title IV, III, and V programs are so crucial to promoting financial access, retention, and completion of postsecondary education for Texans and the success of the *Closing the Gaps* initiative.

The 2008 reauthorization made applying for student aid easier than it used to be. Today consumers have access to more information about college costs and outcomes than ever before. States, for example, are required to justify reductions in higher-education spending, and institutions with "preferred-lender lists" are being asked to explain their choices.

The 2008 reauthorization sought to streamline the Free Application for Federal Student Aid (FAFSA) (i.e., “Skip logic" technology lets students bypass some items, and the IRS fills in some of the rest). Other changes also made it easier for students to compare colleges based on price, to prevent unnecessary private-loan borrowing, and to eliminate conflicts of interest in the student-loan program. Colleges have developed calculators that estimate net price, and the Education Department has updated its College Navigator site to include net-price data and additional consumer information. Hundreds of institutions have adopted a model financial-aid award letter developed by the U.S. Department of Education.

Private lenders now provide students with various disclosures about the terms and conditions of their loans, and require students to self-certify their cost of attendance. Preferred-lender lists, the source of so much controversy during the last reauthorization, have become much less common with the end of the Federal Family Education Loan Program (FFELP) through enactment of the Health Care and Education Reconciliation Act of 2010.

Part of federal aid is now tied to states’ "maintenance of effort" in funding higher education.

With respect to accreditation, the 2008 reauthorization tried to make accreditation more transparent and more accountable to Congress, and set new standards for the oversight of distance education and credit-transfer policies.

Accreditors now publish their decisions online. They ensure that colleges are verifying the identity of online learners and confirm that they have disclosed their credit-transfer policies. The federal committee that oversees accreditors has been restructured to include 12 members appointed by Congress and six named by the education secretary, rather than 15 appointed by the secretary.

Yet lawmakers' doubts about accreditation have only grown, along with calls for accreditors to do more to promote innovation and ensure quality in American higher education. Many in Washington want to "fix" accreditation, and some have even called for the creation of a federal system.

The 2008 reauthorization also aimed to make higher education more open, largely through hundreds of reporting requirements covering subjects as varied as campus crime to textbooks. Yet the bill blocked the Education Department from developing a tool that would show student outcomes (a unit-record system) because of privacy concerns.

Five years later, colleges complain that the cost of complying with the new rules is undermining their efforts to hold down tuition. They are urging Congress to streamline the rules in the next reauthorization.

Meanwhile, the federal government has poured more than $650-million into state-level unit-record databases since 2007, according to the Data Quality Campaign. While some of the databases stop at high-school graduation, and some exclude private colleges, their proliferation is a sign that the action has simply shifted to the states. Some supporters hope to eventually string the systems together into a de facto federal database, though they concede it would be technically difficult.

Congress isn't likely to lift the ban during the next reauthorization, but it will probably require colleges to disclose more information about graduation rates, employment, and wages. For-profit colleges, which have felt unfairly singled out by the Education Department's "gainful employment" rule, hope that lawmakers will apply the new requirements to all colleges.

Despite these changes, major modifications in student-aid policy have been, and are being, made outside the reauthorization process (e.g., via spending bills and federal rules).

Since the 2008 reauthorization, the Education Department has defined a "credit hour," expanded state oversight over distance education, and sought to end aid to colleges that fail to prepare students for "gainful employment"—all through regulation. Congress has tightened eligibility for federal student aid, undoing some of the 2008 expansions, and changed how student-loan interest rates are set through enactment of budget reconciliation bills and ad hoc legislation.

Prior to 2008, the most recent substantive changes to the federal student financial aid programs occurred, not through enactment of a HEA reauthorization bill, but through the Higher Education Reconciliation Act of 2005, the College Cost Reduction and Access Act of 2007, the Health Care and Education Reconciliation Act of 2010, the Budget Control Act of 2011, and the Bipartisan Budget Agreement of 2013.

Even today, the Administration’s FY2015 budget proposal submitted to Congress on March 4, 2014, seeks to continue this trend by calling for program changes usually considered during the reauthorization process that would:

- Provide bonuses to colleges that bolster graduation rates for Pell Grant recipients and help support the development of the administration's proposed college rating system;
- Make the American Opportunity Tax Credit permanent and exclude all student loan forgiveness from taxation;
- Strengthen the "academic progress requirements in the Pell Grant program to encourage students to complete their studies on time";
- provide $30 million "for pilot and demonstration programs and support for the development and refinement of a new college rating system";
- provide $1 billion for a new competitive grant program for states to support reform and improve the performance of their public higher education systems;
- $647 million to support a program to reward colleges that successfully enroll and graduate a significant number of low- and moderate-income students on time and encourage all institutions to improve their performance; and,
- Expanded the “Pay as You Earn” income-based repayment program to all student borrowers regardless of when they took out their loans.

With so much student-aid policy being made through the budget process, reauthorization changes seem marginal in comparison.

Most important, however, the Texas student financial aid community believes, supports, and most strongly urges the Delegation to work to insure that any changes to these programs be proposed, considered and made during the reauthorization process, through the Regular Order, and not through the budget process. These issues are too important to be considered within a process that has as its goal to raise revenues, reduce spending, balance the budget, and reduce the annual budget deficit and accumulated debt.

RECOMMENDATIONS

Reform Federal Student Financial Aid Programs

Hopefully any reform will focus on helping qualified students gain access and complete postsecondary education through simplification and efficiency reforms. Such measures should be coupled with fully funding programs and implementing cost effective programs to control postsecondary education costs and reduce the reliance on debt as the primary funding mechanism to pay for college costs. Increased “risk-sharing” with the states and/or institutions as a means to reform, and as a means of addressing costs as a form of accountability, is sure to be part of this discussion.

Because of the importance of these programs to Texas’ students and their families, the Texas student financial assistance community strongly encourages the Texas Congressional Delegation to carefully consider any proposals to “reform” these programs. The Delegation should refuse to consider any “reform” measures or amendments to these programs through the annual budget/appropriations process, obtain estimates of their impact on Texas from the community while considering such proposals, and “reform” to improve and expand the programs not to achieve savings.

Pell Grant Program

Efforts will be made to constrict the Pell Grant program and freeze the maximum annual grant at the current $5,730 through 2024 and make 100% of the funding subject to the discretion of the Congressional appropriators. This is the approach taken in the House-passed FY2015 budget resolution, H. Con. Res. 96.

The Pell program has, in the last five years, tripled in size to roughly $40-billion a year. It has stabilized in recent years, partly as a result of declining higher education enrollments and overfunding by Congress based on dated estimates from the Congressional Budget Office in 2011 and 2012. The program is currently estimated to run substantial surpluses in 2013 and 2014, with a small deficit of possibly $2 billion in 2015, based on current estimates.

Over 682,000 Texas students received $2.4 billion in need-based Pell Grants during AY2011, compared, for example, to the TEXAS Grant program at $614.7 million serving 106,000 students over a 2-year biennium. The 83rd Texas Legislature appropriated $725 million for the 2014-15 biennium, an amount still below the $1.5 billion needed to fully fund the program under the current eligibility requirements. The same scenario holds true for the state's Tuition Equalization Grant program for students attending Texas' private institutions. The annual appropriation for this program had been funded at the same level of $106 million from 2005 – 2011. The annual appropriation dropped to $84.4 million for 2011 and 2012 before being increased to $168.8 and $180.1 for the 2012-13 and 2014-15 biennia, respectively.

In short, demand and need will continue to outpace supply with respect to the state programs.

We, therefore, strongly urge the Delegation to protect the Pell Grant program as a priority and work toward designating the program an entitlement or index the maximum award to a suitable cost factor. Additionally, the program could be improved for all students, but especially those who may not be able to attend as full-time students. The Delegation could do so by adopting recommendations proposed by several student financial aid associations and think tanks. One such example is making the Grant available during summer sessions by creating a "bonus" Pell program for institutions that enroll and graduate a minimum percentage of economically disadvantaged students (or students from historically underrepresented populations). Another proposal involves merging the Supplemental Educational Opportunity Grant Program with the Pell Grant program.

TRIO, GEAR UP, Title III, and Title V

Minority-Serving Institutions (MSIs) constitute one-third of Texas' 140 public and private nonprofit colleges and universities. More than 460,000 students attend Texas MSIs. As indicated above, non-White populations in Texas are rapidly growing, and are expected to continue to outpace White population growth. The State of Texas benefits from the rich depth and breadth of MSIs. The state is home to an estimated 56 Hispanic Serving Institutions (HSIs), nine Historically Black Colleges and Universities (HBCUs), one Predominantly Black Institution, and 45 emerging HSIs. St. Phillip's College in San Antonio has the distinction of serving as both an HBCU and an HSI. The nine HBCUs had a combined Fall 2011 enrollment of 31,504 students: 62% African American, 21% Hispanic, 14% White, and the remaining 3% composed of Asian American and foreign students.

With this environment, the programs offered through the TRIO, GEAR UP, Title III – Institutional Aid, and Title V – Developing Institutions are vitally important to ensuring that students from these historically underrepresented, and growing, populations are able to meet the challenges of the future and contribute to the social and economic well-being of Texas. We strongly urge the Delegation to resist any efforts to diminish these programs for budgetary reasons, and, during the HEA reauthorization process, work to increase appropriations for and expand these programs. In particular, it is critical to protect GEAR-UP, which provides outreach and awareness programs to middle and high school students.

Student Loan Debt and Bankruptcy

The bankruptcy exemption for private student loans was part of the Bankruptcy Abuse Prevention and Consumer Protection Act.

Federal loans account for 85 percent of the student loan market, and are also not eligible for discharge in bankruptcy. However, federal student loans have income-based repayment options and carry interest rates far lower than private student loans. Federal and state government programs also offer loan forgiveness for people who enter into certain public service programs.

The Consumer Financial Protection Bureau and the U.S. Department of Education said Congress should consider revisiting the bankruptcy exemption for private student loans.

"Without the ability to discharge their loans, borrowers have looked for other ways to handle their debt," CFPB director Richard Cordray stated during congressional testimony. "But many borrowers told us their lenders were unable or unwilling to modify or adjust repayment terms even in these tough times. And the borrowers feel they have little leverage to negotiate reduced loan payments with their lenders."

Cordray said the CFPB found that after the law was changed in 2005, private lenders continued to issue subprime student loans, and there was no cost savings to students. Today, with stricter lending rules and a tighter credit market, 90 percent of private loans require a cosigner, and those cosigners also are unable to discharge the debt.

Sallie Mae supports allowing new federal and non-federal loans to be eligible for discharge, taking the position that responsible lending standards, clear information and consistent laws are good for borrowers and lenders alike.

For the past three sessions of Congress, Sen. Dick Durbin (D-Ill.) has introduced legislation to remove the exemption on private student loans. S 114 – The Fairness for Struggling Students Act – is the most recent version filed in the 113th Congress and will be refilled during the 114th Congress.

It is time to restore this benefit. It makes no sense that credit card debt used to finance a postsecondary education can be discharged through bankruptcy, but not a student loan debt.

Exemption of State-Based Student Loan Programs from Preferred Lender Regulations

By definition, a preferred lender list is a list of lenders that a college suggests its students consider when taking out student loans. Students who receive a “preferred lender” list from a school are not bound by the list. Borrowers can choose from any federally-approved lender and may often find a better deal outside the list.

This requirement was added to the HEA several years ago when a handful of private lenders were sanctioned for deceptive loan practices. Among other practices, they were sharing a portion of their loan revenue with the school's financial aid office, which is a clear code of conduct violation. These financial aid officers were guiding students toward loan products that would offer them kickbacks. Fortunately for students today these unethical practices have come to a halt.

The Student Loan Sunshine Act was incorporated into the Higher Education Opportunity Act of 2008 (HR 4137, P.L. 110-315), which was signed into law on August 14, 2008. The law includes, among its provisions, banning gifts, payments, and fees from lenders to student financial aid officers. Colleges are required to disclose on any preferred lender list involving FFEL Stafford, PLUS, consolidation, or private loans why each lender was selected as a preferred lender (highlighting any terms and conditions favorable to the borrower) and that students and parents are not required to borrow from a lender on the preferred lender list. Also, colleges who have a preferred lender list are prohibited from allowing lenders to use the name or logo of the institution in any way that implies that the institution endorses the private education loans of the lender.

The issue here, however, concerns state-sponsored student loan programs offered through non-profit state agencies, as opposed to student loans originated through private for-profit entities. Because of this key difference, these programs should be specifically exempted from federal regulations requiring adherence to preferred lender list regulations. These regulations were intended to apply to alternative loans originated by private, for-profit lenders to prevent fraud and abuse. Removing alternative loan regulations for state loan programs would allow financial aid officers at institutions to fully promote all of a State's loan programs, including Texas' B-On-Time, without legal uncertainties.

These programs are offered by public entities, using public funds, or bond revenue backed by the full faith and credit of a State. They often offer the lowest interest rates and best borrower benefits of any alternative loan programs. They also operate under the oversight of state executive and legislative branches of government.

Additionally, in Texas, the B-On Time Program is a unique program in that it actually encourages borrowers to complete their postsecondary educations "on time" with a 3.0 GPA in 4 or 5 years in order to have their entire B-On Time debt forgiven. Furthermore, in cases in which the borrower does not meet the requirements for forgiveness, the repayment carries a 0% interest rate.

Two bills addressing this issue are pending in the Congress – HR 1529, the Student Aid Expansion Act of 2013, and HR 3371, the State Loan Access and Student Protection Act.

The Texas student financial aid community strongly urges the Texas Congressional Delegation to support legislation to correct the oversight to exempt these types of student loan programs.

Income Tax on Loan Forgiveness

This issue resonates in Texas because state policymakers' historical position on relying on the federal student financial assistance programs and federal student loan programs to provide the bulk of funding to provide financial access to postsecondary education (85% from federal programs and 67% from federal student loans contrasted to the national rates of 76% and 52%, respectively). It is, therefore, reasonable that the Congress and Administration may seek amendments to the Higher Education Act that will assist those borrowers who qualify for forgiveness of their loan debt, either through public service employment, on-time repayment, the B-On Time program, or some other program, by exempting the amount forgiven from being treated as income for tax purposes. And we urge the Delegation to support such efforts.

Student Loan Repayment Plans

Today there are seven federal student loan repayment plans, including income-based, income-contingent, and income-sensitive plans. These plans still assume two federal student loan programs – FFELP and FDLP – even though FFELP originations ceased in 2010.

Most recently, in 2009, a new repayment plan became available to all federal student loan borrowers. Income-Based Repayment (IBR) caps student loan payments at a manageable share of income and forgives any remaining debt after 25 years. The Department of Education reports that more than 1.3 million borrowers have now enrolled in IBR. Borrowers who work in the public or nonprofit sector can have any remaining debt forgiven after as few as 10 years through the Public Service Loan Forgiveness program.

For students who start borrowing after June 2014, IBR will have a lower monthly payment cap and forgiveness after 20 years instead of 25. In 2012, the Administration created the Pay As You Earn plan, accelerating access to this additional repayment relief for students affected by the recession. Pay As You Earn is for students who borrowed their first loan after September 2007 and received at least one disbursement after September 2011, primarily recent undergraduates.

There are too many repayment plans that are redundant, confusing, complex, and flawed in their structure. The Congress should repeal the existing programs and establish a new and improved universal IBR or ICR program, along with a standard repayment plan that is for a set number of years at a fixed interest rate, with sufficient flexibility for the borrower to choose the plan that best fits their economic situation and allows the opportunity for adjustment between the two plans during the life of the repayment period to correspond with changes in income and circumstances.

The income-based plan should include improvements to the current Pay as You Earn plan proposed in the Administration's FY2015 budget, along with recommendations proposed by several higher education associations and think tanks. The proposed improvements for new loans originated after enactment of legislation would:

- Cap Public Service Loan Forgiveness at $30,000, corresponding to the maximum in Pell Grant aid a student could ever receive;
- Create two-tiered loan forgiveness: 20 years for initial balances less than $40,000, and 25 years for those above $40,000;
- Create a higher payment rate for borrowers earning more than $35,000 a year;
- Eliminate payment caps. Payments are always based on income; and,
- Make IBR payments for married borrowers based on combined household income (but halve household income if both are paying loans through IBR).

Community College to Career Fund, Measures of Success, and Cohort Default Rate

These recommendations concern primarily community colleges. In Texas, over 50% of postsecondary education enrollment is in the state's 60 community colleges. These institutions are the gateway to the state's 14 year old *Closing the Gaps* initiative and, therefore, crucially important to the state's success at enrolling and graduating more students from historically under represented populations and contributing to Texas future social and economic well-being.

Community College to Career Fund

In its budget submission for the 2013 fiscal year, the Administration proposed $10-billion for job-training programs.

The bulk of the job-training money would come in an $8-billion "Community College to Career Fund". The fund would provide money to community colleges and states to form partnerships with businesses to train an estimated two million workers in high-growth and in-demand areas.

The proposed new fund would train workers for unfilled jobs through apprenticeships, on-the-job training, and internships. It would also support industry efforts to develop skills consortia, standardize industry certifications, develop new training technologies, and offer grants to state and local governments that encourage companies to locate in the United States.

Under the Administration's plan, states, industries, and colleges that were successful in placing workers in jobs would be eligible for additional "pay-for-performance" money. The fund would also finance a six-week online training course on entrepreneurship for up to 500,000 new entrepreneurs and an intensive six-month entrepreneurship-training program for 100,000 small-business owners.

With Texas' community colleges enrolling 48% of Texas postsecondary education students, and 53% of public institutional enrollment, programs like the CCCF would be a boon to the work that our colleges are already doing to help address the skills gap and to provide economic opportunity for the many people still struggling in today's economy.

Measure of Success and Completion

Many students who attend community college transfer to other institutions to complete their degree or certificate. Unfortunately, the Department of Education has excluded students who “transfer-out” from a college from the formal completion and graduation rates for that institution, resulting in artificially low and incorrect completion rates.

Simply incorporating transfers into the Department’s Student Right to Know calculation rate increases the community college three-year completion rate to 40%, while the latest official SRK graduation rate without them is 22%. The Committee on Measures of Student Success (CMSS), created in the Higher Education Opportunity Act of 2008 (HEOA), recommended a combined completion and transfer rate, but this approach has not yet been implemented.

The American Association of Community Colleges and the Association of Community College Trustees have developed a Voluntary Framework of Accountability (VFA) that delineates short-term progress and long-term outcomes for students and provides more accurate metrics for community colleges that should help them improve their performance. Congress should examine these efforts as examples for establishing a more accurate method of performance-based success for students who begin their postsecondary educations at community colleges.

A New Cohort Default Rate Calculation

Current cohort default rates (CDRs) assess institutional eligibility for Title IV financial aid based on the share of a school's borrowers who default within the first three years of repayment. Colleges with CDRs above certain thresholds may face sanctions that end their eligibility for federal student aid. However, CDRs are insufficient sources of consumer information about the situation that students – both borrowers and non-borrowers – face, because they exclude non-borrowers. The vast majority of community college students do not borrow.

The Congress should reexamine this method of determining a school's continued eligibility for participation in the federal Title IV programs and create a new Student Default Risk Index (SDRI), as recommended by the American Association of Community Colleges. Under this new calculation, each school's three-year Cohort Default Rate would be multiplied by the percentage of students at that school who rely on federal loans. By incorporating the share of students who borrow into the measure, the SDRI would more accurately convey the pattern of default risk for students at a given school. It would also help the public better understand institutions, which is particularly important given the false impressions created by the current default rate calculations.

Student Loan Default Prevention

As is the case with the redundant student loan repayment plans, with the end of the FFELP in 2010, the next reauthorization needs to include a complete rewriting of Title IV, Part B of the HEA and retain those elements which were purposed to provide support to institutions to prevent student loan defaults. The need for customized, locally-provided support services and programs, including college outreach and awareness, student loan counseling, default prevention, debt management, and financial literacy services tailored to help students and borrowers while they are enrolled continues under the FDLP.
Regardless of what rate students pay on their loans, they need better financial counseling before and when they first take on the loans, throughout their education, and when they leave school.

This was issue was borne out during a March 27, 2014 hearing of the Senate Health, Education, Labor, & Pensions Committee when Committee Chair, Senator Tom Harkin said "We need to have better loan counseling. There may be differences on the edges, [but] that's a common theme I think that runs through all of this".

Federal regulations require students to sit through online counseling sessions before receiving their federal loans when they begin school, but the sessions are very text-heavy and there's no way to ensure that students absorb the information or that students themselves, rather than their parents, are completing the required sessions.

At a minimum, schools should have the flexibility and choice to require students likely to default on their loans to undergo additional counseling during their undergraduate years. Metrics exist to identify students likely to default.

Additionally, colleges don't have any way to hold student borrowers accountable who do not complete exit counseling, like withholding diplomas or transcripts.

During the March Senate Committee hearing Senator Patty Murray said she has pushed for additional financial training even at earlier levels of education. "The more you know, the more you can make reasonable decisions, and we just do a very bad job in this country on good financial literacy," she said.

Senator Harkin also asked witnesses for input on his bill, S 546 he introduced earlier this year that would institute new requirements on student loan counseling, including imposing additional counseling requirements on groups of students that are more likely to default and testing first-time borrowers on their knowledge of the loan terms and conditions.

The bill proposes to require entrance counseling that will:

- provide in-person or online in an interactive way that checks students' understanding of key information;
- occur before first-time borrowers sign the master promissory note;
- describe the differences between private and federal student loans and how federal student loans generally offer more favorable terms, conditions, repayment and forgiveness options;
- explain that students have the ability to refuse all or borrow less than the maximum student loan amount allowed; and,
- disclose the institution's student loan Cohort Default Rate (CDR), the percentage of its students who borrow, and how its CDR compares to the national average.

The bill also requires that if the institution's CDR is greater than the national average CDR, it must disclose that information and provide the student with loan repayment data.

Exit counseling will describe the different repayment plans available and provide personalized information with estimates of the borrower's anticipated monthly payments as well as the difference in interest paid and total payments under each plan.

Colleges and Universities must annually notify students of their cumulative debt and their remaining eligibility, if applicable, for subsidized loans and Pell grants. This can be done through pre-existing disclosures to students, such as the financial aid award letter.

If an institution's CDR is higher than the national average (currently 13.4%), the institution will provide additional annual counseling to student borrowers and to parents borrowing more than $10,000, and target students at risk of incurring burdensome debt for additional loan counseling.

If an institution's CDR is at or greater than 30% in any fiscal year (excluding schools with low borrowing rates), the institution will notify each student that they are attending an at-risk institution and include in the default prevention plan additional counseling, including a counseling session either in-person or over the telephone to help the student develop a budget.

State-based not-for-profit organizations have nearly 50 years of experience in providing specialized debt management support that includes paying for college web sites and financial literacy services. These services encompass curriculum on saving for college and understanding credit; assisting with entrance and exit interviews; providing online debt management counseling and repayment calculators; creating default aversion programs; and, counseling delinquent borrowers and assisting them in obtaining deferments and evaluating repayment options. In Texas, these services are best delivered at the local level, and there are no similar services currently provide by the Federal government.

At a time when student loan borrowers face increasing trouble repaying their student loans and outstanding student loan debt surpasses credit card debt, the need for a dedicated federal funding source to provide needed student loan counseling and debt management services is crucial. This underutilized existing state-based student loan support infrastructure of not-for-profit organizations is well-positioned to provide these aforementioned services to federal student loan borrowers in all 50 states. **TASFAA encourages the Congress to incorporate a section into the HEA (perhaps a new Part B) that permits the Secretary to contract with these state non-profits to implement and administer these programs**.

TASFAA appreciates the opportunity to submit these recommendations. These are important programs to insuring financial access to postsecondary education for Texas students and their families. We believe we have identified those issues of primary importance, but they are obviously not exclusive. With the evolving budgetary and higher education landscapes, we may have other issues that we will bring to the Congress' attention.

TASFAA Mission Statement

The Texas Association of Student Financial Aid Administrators "TASFAA" is a professional statewide organization with diverse membership that works towards the ultimate goal of providing students with the resources and choices necessary to access higher education opportunities.

Founded in 1969, TASFAA serves multiple roles including:

- **Encouraging** students to pursue higher education.
- **Promoting** student financial aid programs in the post-secondary institutions of the state.
- **Facilitating** communication, activities, services and professional development among constituencies involved in student financial aid administration in the state.
- **Inspiring** professional competencies in the field of student financial aid administration.
- **Motivating** innovation and creativity in the financial aid field to span all cohorts.

Encourage, Promote, Facilitate, Inspire, Motivate

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