



# **Title IV Student Loan Update**

## **2013 PacWest Conference**

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**Office of Postsecondary Education**

**May 17, 2013**





- Sequestration
- Other Legislation
- Title IV Cohort Default Rates
- Title IV Regulatory Activity
- ED Initiatives
- Perkins Loan Issues
- DCLs/Electronic Announcements
- Questions







- FY 2013 Federal Budget
  - Budget Control Act (BCA) of 2011 put into place an automatic process for across-the-board Federal budget cuts (sequester)
  - Sequester triggered on March 1, 2013





- Impacts of sequester on Direct Loan Program
  - Loan origination fees for Direct Loans first disbursed on or after March 1, 2013 increase from:
    - 1.0% to 1.051% (Sub and Unsub loans)
    - 4.0% to 4.204% (PLUS loans)

# Sequestration



- Schools responsible for increased loan fee percentage for loans first disbursed on or after July 1, 2013
- Secretary responsible March 1 to June 30, 2013





- Impacts of sequester on Campus-Based Programs
  - Federal Work-Study (FWS) and Federal Supplemental Educational Opportunity Grant Programs (FSEOG):
    - Fully funded for Award Year 2012-13
    - Funding will be reduced by 5.52 % or approximately \$89 million for Award Year 2013-14
  - No impact on Perkins Loan due to no appropriations







# Other Legislation







- BCA of 2011 – No Direct Subsidized Loans for graduate and professional students for loans with loan periods beginning on or after July 1, 2012
- Consolidated Appropriations Act, 2012 – Temporary elimination of grace period subsidy on Direct Subsidized Loans first disbursed on or after July 1, 2012 and before July 1, 2014



## Interest Rate Extension

- P.L. 112-141 signed by President on 7/6/2012 includes 1-year extension of 3.4 percent interest rate on Direct Subsidized Loans to undergraduates  
<http://ifap.ed.gov/eannouncements/071012InterestRateFinal.html>
- 6.8 percent fixed interest rate on Direct Subsidized Loans first disbursed on or after 7/1/2013 unless further extension

# Other Legislation – 150% Direct Subsidized Loan Limitation



## P.L. 112-141

- Established a limit of how many years a student may receive Direct Subsidized loans
  - Applies to “new borrowers” on or after July 1, 2013
    - Borrower with no balance on a FFEL or Direct Loan on July 1, 2013.
- When student receives subsidized loans for 150% of the published length of the academic program -
  - Student may not receive additional subsidized loans for enrollment in that program.

# Subsidized Loan Limitation Examples

Program Length	Limitation on Subsidized Loan Eligibility
4-Year Bachelor's Degree	6 Years of subsidized loan eligibility
2-Year Associates Degree	3 Years of subsidized loan eligibility
1-Year Certificate Program	1 ½ Years of subsidized loan eligibility
10 Week Certificate Program	15 Weeks of subsidized loan eligibility



# Other Legislation – 150% Direct Subsidized Loan Limitation



- Transfers –
  - Students maximum time to receive subsidized loans is established based on the length of the program the student is currently enrolled in
  - Remaining subsidized eligibility is calculated by subtracting from maximum eligibility for the program, the time the student has already received subsidized loans for enrollment in any program.

# Other Legislation – 150% Direct Subsidized Loan Limitation



- Transfer Examples –
  - Student receives two years of subsidized loans while enrolled in a two-year program
    - Student transfers to a four-year BA program
      - Student has four years of remaining subsidized loan eligibility
  - Student receives three years of subsidized loans while enrolled in a four-year BA program
    - Student transfers to a two-year AA program
      - Student has no remaining subsidized loan eligibility

# Other Legislation – 150% Direct Subsidized Loan Limitation



P.L. 112-141 also provides that under certain conditions a student who loses eligibility for additional subsidized loans may lose interest subsidy on subsidized loans received from July 1, 2013.

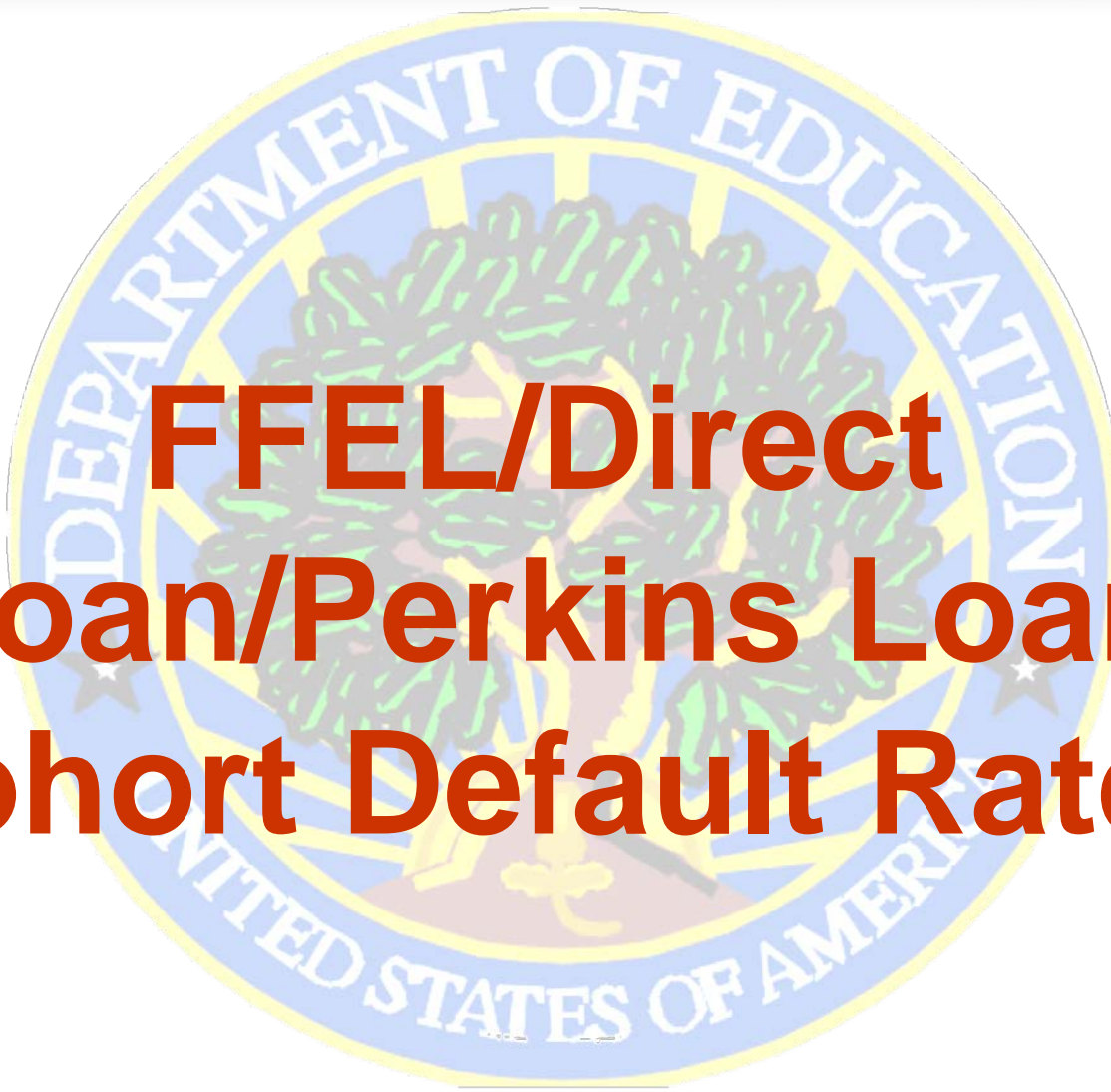




# Other Legislation – 150% Direct Subsidized Loan Limitation



- ED/FSA will track, calculate, and inform students and institutions.
  - Likely to be codes and comments on SARs and ISIRs.
  - COD editing and enforcement.
- Schools will need to -
  - Provide program information, including length of program, to both COD and to NSLDS; and
  - Update and correct loan academic year dates and loan period dates.



# **FFEL/Direct Loan/Perkins Loan Cohort Default Rates**

# What is the FFEL/Direct Loan CDR Calculation?



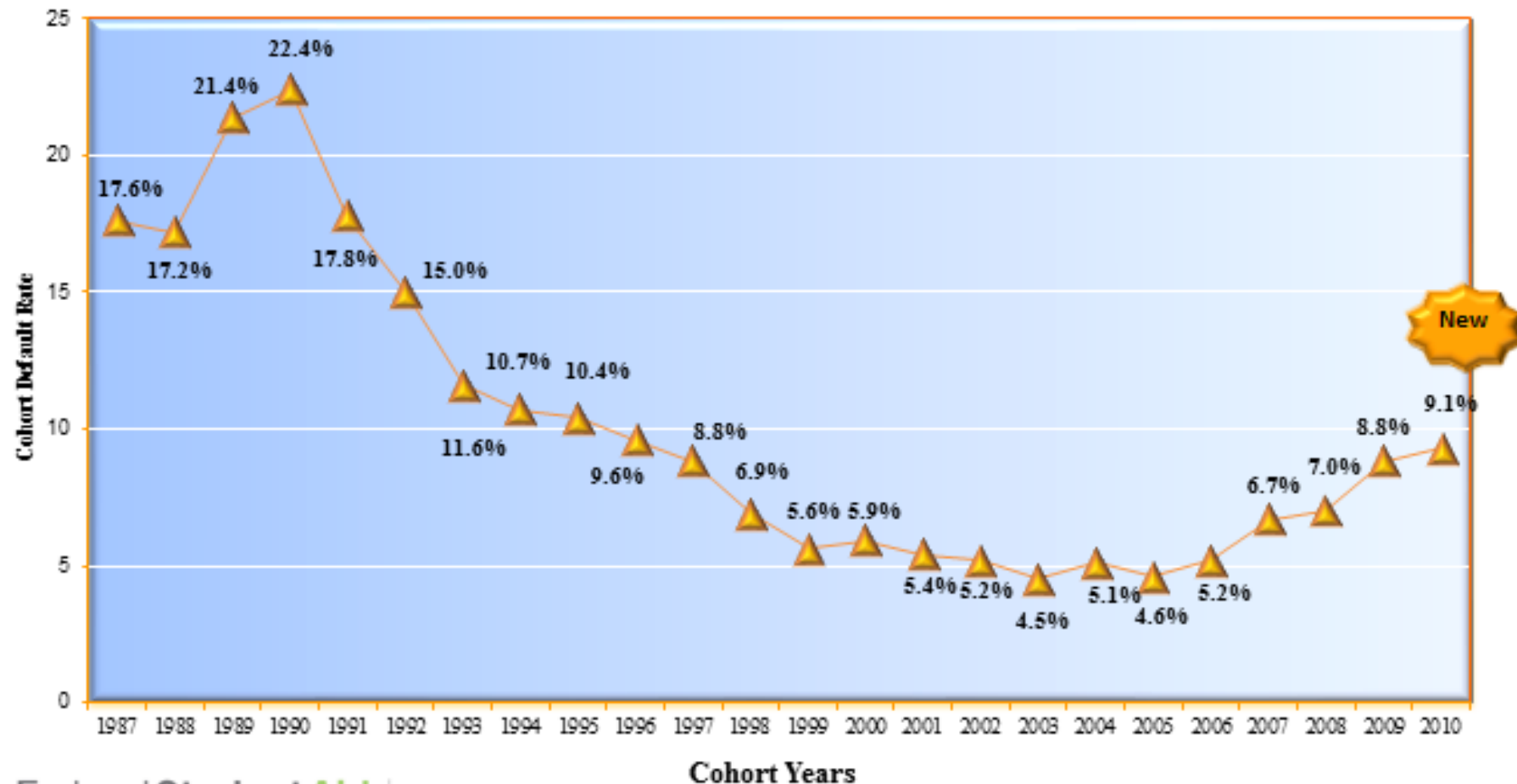
- Two –Year Rate: A cohort default rate is the percentage of the number of the school's FFEL and Direct Loan borrowers who enter repayment in one Federal Fiscal Year (October 1 through September 30) who default in that federal fiscal year or by the end of the next federal fiscal year.



# National Student Loan Default Rates

Issue Date

1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012



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# HEOA Changes to FFEL/Direct Loan CDR



- Increases the CDR monitoring period from two to three years.
- Beginning with the 2009 cohort, the calculation will be:
  - Borrowers who default in that federal fiscal year or by the end of the next two federal fiscal years
  - FY 2009 3-year rate is 13.4%
  - Establishes a three-year transition period for sanctions



# What is the FFEL/Direct Loan CDR Calculation?



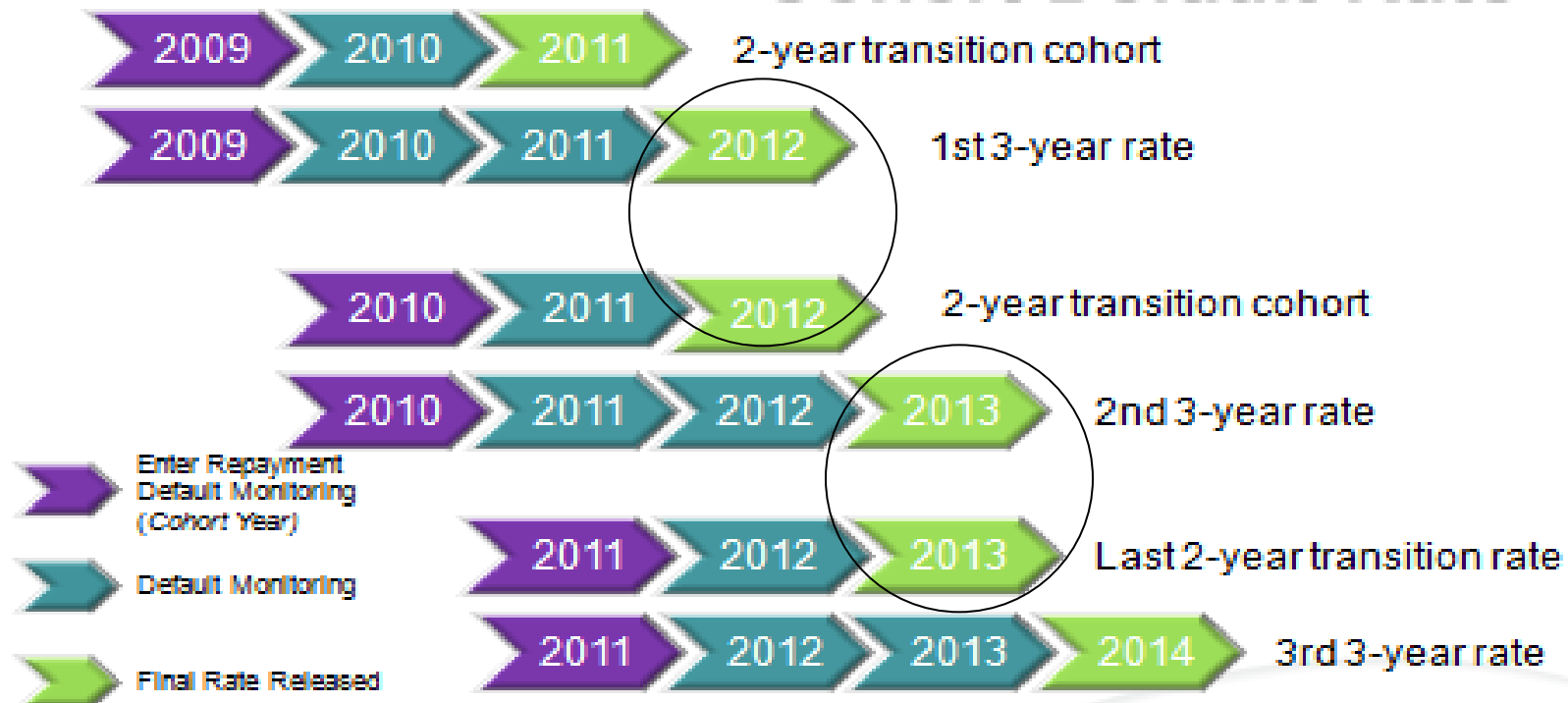
- Three –Year Rate: A cohort default rate is the percentage of the number of the school's FFEL and Direct Loan borrowers who enter repayment in one Federal Fiscal Year (October 1 through September 30) who default in that federal fiscal year or by the end of second following fiscal year.



# Transition Period



## 2-Year vs 3-Year Cohort Default Rate







## **Three Most Recent Years of Federal Perkins Loan National Cohort Rates – (Borrowers 240 days or more past due)**

**- As of June 30, 2012 (2010-2011)**

**11.08%**

**- As of June 30, 2011 (2009-2010)**

**8.32%**

**- As of June 30, 2010 (2008-2009)**

**10.08%**





# Regulatory Activity



- Negotiated rulemaking and master calendar requirements waived by statute for regulations implementing the 150% limitation
- Regulations will be published in the Federal Register in mid-May 2013
- Effective date: Upon Date of Publication



- Federal Register Notices published October 26, 2011 and October 28, 2011 announced intent to establish two Negotiated Rulemaking teams to address:
  - Student loan program issues
  - Teacher preparation program issues in HEA, Title II and TEACH Grant Program



# 2012 Negotiated Rulemaking



- Student Loans Public Meetings held:
  - January 9-13, 2012
  - February 13-17, 2012
  - March 26-30, 2012
- Loans Team Reached Consensus
- Two loan regulation packages
  - Regulation #1 included Total and Permanent Disability (TPD) and IBR/Pay As You Earn/ICR regulations
  - Regulation #2 will include all remaining student loan program issues



# 2012 Negotiated Rulemaking



- NPRM for Regulation #1 published on July 17, 2012  
<http://ifap.ed.gov/fregisters/attachments/FR071712LoanProposeRulemaking.pdf>
- Closing date for public comments was August 16, 2012
- We received 2,892 public comment submissions
- Final Regulations published on Nov. 1, 2012





- Pay As You Earn implemented under ICR regulations for Direct Loan Program borrowers only – Implemented December 21, 2012
- IBR model followed:
  - Borrower must show partial financial hardship (PFH) with annual reevaluation of PFH status required
  - Interest capitalized as in IBR – borrower no longer PFH, no income information for annual evaluation, or borrower leaves plan





- IBR model followed (cont.):
  - ED pays accrued interest for 3 consecutive years if borrower's payment is less than accrued interest
- Unlike IBR, 10% overall cap on amount of interest that will be capitalized
- New borrower in 2008 is FY 2008, beginning 10/1/2007 and is defined as a borrower with no outstanding Direct Loan or FFEL balance as of 10/1/2007 or upon receipt of new loan after that date



- New loan in 2012 is any Direct Loan disbursement made on/after 10/1/2011 (FY 2012) to a borrower who meets new borrower definition
- Borrower annual payments capped at 10% of discretionary income and loan forgiveness after 20 years of repayment



# 2012 Negotiated Rulemaking



- Total and Permanent Disability Regulatory Changes – Effective July 1, 2013
  - Revise Perkins, FFEL, and Direct Loan regulations to provide for direct application to ED for TPD discharge
    - Simplifies the process
    - Establishes a single point of contact
    - Reduces application processing time
    - Provides more consistency in determinations
    - Provides uniformity in communications
    - Ensures all of a borrower's Title IV loans are discharged at the same time





- **Total and Permanent Disability Regulatory Changes**
  - Allow “borrower’s representative” to receive all TPD notifications on behalf of the borrower
  - Provide more detailed information to borrowers in letters explaining decisions to deny discharge applications
  - Specify that ED will collect income documentation from borrowers during the post-discharge monitoring period on an OMB-approved form





- **Total and Permanent Disability Regulatory Changes**
  - Allow borrowers to qualify for TPD discharge based on disability notice of award for SSA disability benefits. The disability notice must state that the SSA will review the borrower's eligibility for disability benefits once every 5 – 7 years (Medical Improvement Not Expected category)
  - Borrower still subject to the 3-year post discharge monitoring period





- Total and Permanent Disability Regulatory Changes
  - Three revised or new TPD forms will be developed and approved through the OMB-forms clearance process:
    - Applicant Representative Designation Form (New)
    - TPD Discharge Application Form (Revised)
    - Post-Discharge Monitoring Form (New)



- Total and Permanent Disability Forms
  - Federal Register notice announcing public comment period on TPD forms: March 4, 2013
    - Public Comment Closing Date was: May 3, 2013







- Student Loan Issues: NPRM for Loan Regulation #2 expected June 2013
  - FFEL Repayment Disclosures
  - DL and FFEL Forbearance Issues
  - Direct Loan Minimum Loan Period for Transfer Students in Non-term Programs
  - Title IV Loan Rehabilitation Issues





- Student Loan Issues: NPRM for Loan Regulation #2 expected June 2013
  - Repeal of Unnecessary FFEL Regulations
  - Modification of Direct Loan Regulations
  - Title IV Closed School Discharge
  - School Enrollment Status Reporting
  - Perkins Loan Issues
  - FFELP Administrative Wage Garnishment





- Closed School Discharge
  - Extends the current 90-day enrollment window to 120 days and provides examples of exceptional circumstances
- School Enrollment Status Reporting
  - Amends regulations to reflect current process and adds comparable enrollment reporting provisions to the Perkins Program



- Definition of on-time payment for a Perkins Loan rehabilitation – 20 days
- Satisfactory Repayment Arrangements and Loan Rehabilitation
- Allows assignment of a Perkins Loan without a borrower SSN if loan was made before SSNs were collected on the promissory note



- Perkins Loan Deferment & Cancellation Issues
  - Incorporates graduate fellowship deferment eligibility criteria from FFEL regulations
  - Addresses cancellation progression for borrowers who switch cancellation categories
  - Removes debt-to-income economic hardship deferment category
  - Allows break in cancellation service due to a FMLA condition





- April 16, 2013 Federal Register Notice announcing Negotiated Rulemaking Agenda Hearings:
  - Washington, DC – May 21, 2013
  - Minneapolis, MN – May 23, 2013
  - San Francisco, CA – May 30, 2013
- Negotiated Rulemaking Public Sessions scheduled to begin in September 2013
- Separate Notice will solicit non-Federal negotiator nominations and announce agenda

# 2013-2014 Negotiated Rulemaking



## Topics:

- Fraud Prevention and Detection
- Cash Management/Debit and Prepaid Cards
- State Authorization
- Clock to Credit Hour Conversion
- Campus Safety and Security
- PLUS Loan Adverse Credit
- Other Topics Suggested by the Community









- Financial Awareness Counseling Tool
  - On-line tool to help students manage loan debt
  - Brings transparency to process of debt management
  - Provides students with five interactive tutorials covering topics ranging from managing a budget to avoiding default
  - Provides borrowers access to individual loan history
  - Accessed through [StudentLoans.gov](http://StudentLoans.gov)





# PERKINS LOAN ISSUES





- OMB has approved the new Perkins Loan Master Promissory Note
- No changes from current MPN
- New Perkins MPN posted to IFAP on Oct. 25, 2012 (DCL GEN-12-19)
- Perkins eMPN posted to IFAP on Dec. 28, 2012 (DCL GEN-12-23)





- OMB has approved the new Perkins Loan Assignment Form
- Only substantive change – providing cancellation history information in Section E
- School “Serial Number” replaced by “OPE ID” number on the Institutional Certification form



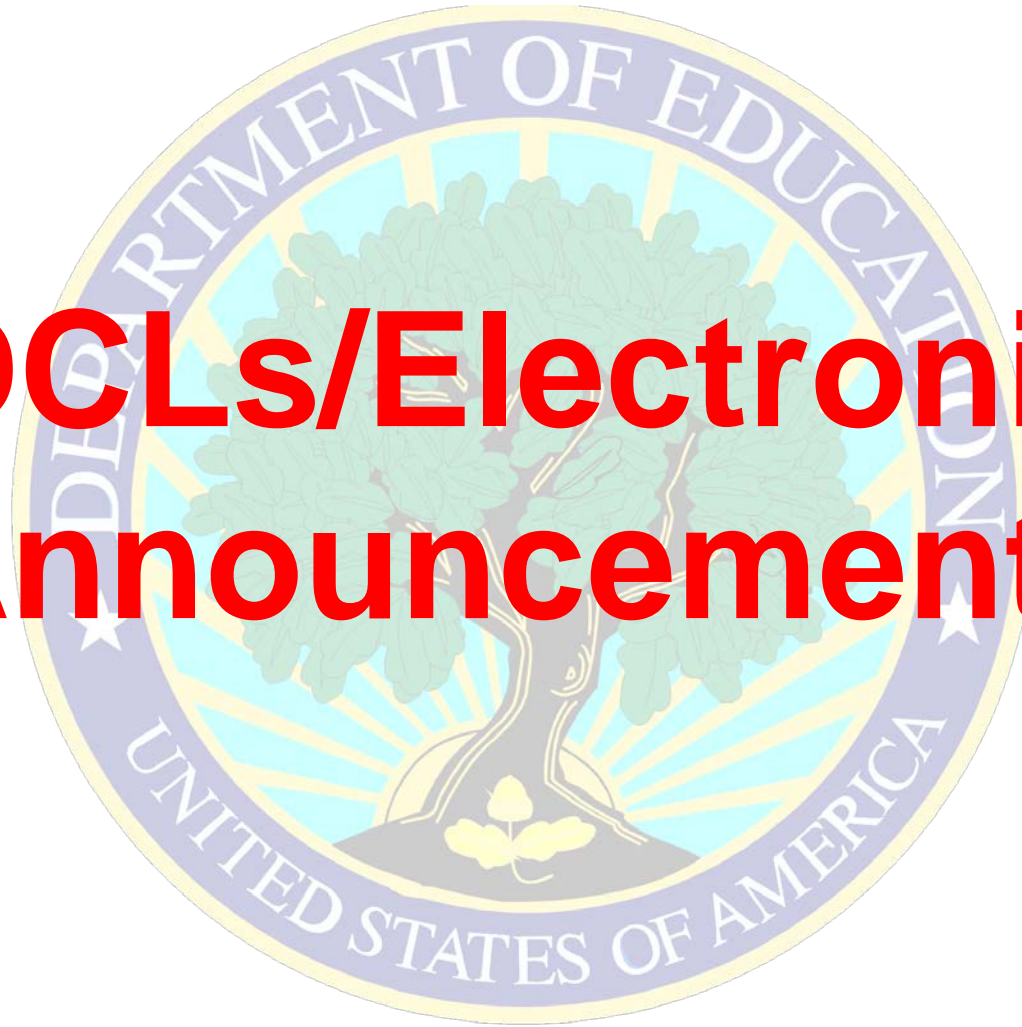
# Perkins Loan Issues



- Revised Perkins Loan Liquidation and Assignment Procedures and Approved Assignment Form Published – EA dated April 19, 2013 (updated May 3)
  - Transition for implementation:  
Department will accept assignment forms with 8/31/2012 expiration date through 8/31/2013
- April 15, 2013 Federal Register Notice – solicits comment on Title IV Loan Military Service-Related Deferment Forms – Deadline for Comment : June 14, 2013



# DCLs/Electronic Announcements



# Dear Colleague Letters - Loans



- DCL GEN-13-11: Contact Information for the FSA Ombudsman (posted 4/17/13)
- DCL GEN-13-02: Regaining Title IV Eligibility After Exceeding Loan Limits and Treatment of Loan Funds When a Student Fails to Begin Attendance (posted 1/17/13)
- DCL GEN-12-23: Electronic Version of Revised Perkins Loan MPN (posted 12/28/12)
- DCL GEN-12-22: Approval of IBR/PAYE/ICR Payment Plan Request Form (posted 12/19/12)
- DCL GEN-12-19: Approval of Perkins Loan MPN (posted 10/25/12)
- DCL GEN-12-16: Revised DL and FFEL Teacher Loan Forgiveness Forms (posted 8/15/12)
- DCL GEN-12-15: Revised School Closure and False Certification Loan Discharge Applications (posted 8/14/12)

# Dear Colleague Letters - Loans



- DCL GEN-12-14: Approved Direct Loans and FFEL Deferment and Mandatory Forbearance Forms (posted 7/30/12)
- DCL GEN-12-08: Disbursing or Delivering Title IV Aid Through a Contractor (posted 4/26/12)
- DCL GEN-12-06: NSLDS Enrollment Reporting Process (posted 3/30/12)
- DCL GEN-12-02: Employment Certification for Direct Loan Public Service Loan Forgiveness (posted 1/31/12)
- DCL GEN-12-01: Changes Made to Title IV Programs by Consolidated Appropriations Act, 2012 (posted 1/18/12)





## GENERAL

05/03/13 – Volume 6 – Campus-Based Programs 2013-14 FSA Handbook

04/05/13 – Impact of Sequestration on the Title IV Student Financial Assistance Programs

3/25/13 – Upcoming Deadline for Transition to New NSLDS Reporting File Layouts Retirement of SSCR Software

1/30/13 – Availability of 2013 Blue Book

11/20/12 – Availability of NSLDS Enrollment Reporting Information

11/9/12 – Packaging and Repackaging of Title IV Student Aid

8/23/12 – Information About Teacher Cancellation Low-Income Directory Updates



## CAMPUS-BASED

4/19/13 – Federal Perkins Portfolio Liquidation and Assignment Procedures (Updated May 3, 2013)

4/12/13 – Federal Perkins Loan Status of Default as of June 30, 2012 (Orange Book)

8/23/12 – Federal Perkins Loan Default Reduction Assistance Program (DRAP)





## Direct Loan

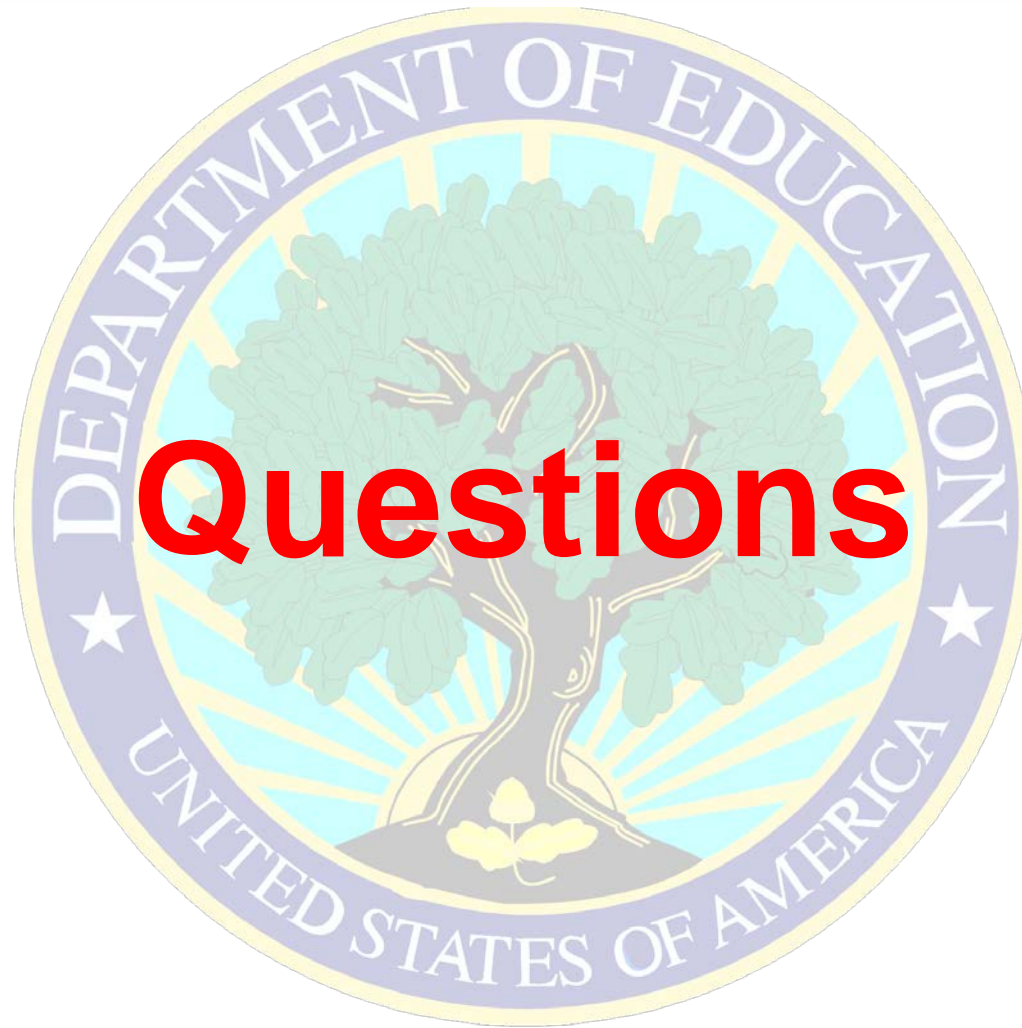
04/19/13 – PLUS Loan Applicant Communications

10/19/12 Revised MPN for Direct Subsidized and Unsubsidized Loans

08/16/12 – Improvements to Financial Awareness Counseling Links on StudentLoans.gov Website

07/10/12 – Direct Loan Interest Rates and Changes to Eligibility for Direct Subsidized Loans

04/05//12 – Elimination of Up-Front Interest Rebate and Direct Subsidized Loan Eligibility for Graduate and Professional Students



**Questions**



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