

# Talking Points for THE PROSPER ACT, Full-committee Mark-up

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## Disbursements

We suggest removing Federal ONE Consolidation Loans from the exclusions defined in EXCLUSION OF CONSOLIDATION AND FOREIGN STUDY LOANS in Sec. 465(a)(3) as defined on page 287 because consolidation loans are made after underlying student loans are disbursed. They are funded to pay off existing student loans and this refinancing occurs simultaneously with no disbursements made to the institution or the student making this language irrelevant.

In the subsection for COURSEWORK FOR GRADUATE OR PROFESSIONAL ENROLLMENT OR TEACHER EMPLOYMENT as defined in Sec. 465(b)(2)(v) on page 293, a technical correction should be made where it states "...whether the student is a dependent student or dependent student..." to state "...whether the student is a dependent student or independent student..."

We applaud the inclusion of legislation that allows INSTITUTIONAL DETERMINED LIMITS in Sec. 465(b)(2)(D) as defined on page 296-298 of the Manager's Amendment Mark-up. We strongly suggest that the institutions serving a substantial number of at-risk students be given authority to disburse excess funds in equal weekly or monthly amounts during the loan period. Because at-risk students typically have little to no experience in budgeting large amounts of money, they tend to overspend, over borrow and drop out of school if they have no way to pay their living expenses. Frequently dispersing smaller amounts of the loan helps students budget their living expense money and they gain real-life budgeting knowledge. The institution's graduation rates could subsequently increase.

## The Need for Repayment Incentives

While we understand that the intent of this section is to limit the Secretary's authority for defining repayment incentives, we strongly suggest that the final HEA bill defines additional repayment incentives that will encourage outcomes and good repayment behaviors that benefit students and serve the federal fiscal interest.

Traditionally, people respond favorably to rewards. We are strong advocates for repayment incentives or subsidies that encourage on-time repayment which consistently result in positive behaviors to the benefit of borrowers, institutions and taxpayers.

We are providing one example for an interest payment subsidy while students are in school for your consideration.

*Consider the COST SAVINGS for taxpayers when an interest payment subsidy is given during enrollment:*

- Betty Borrower is given incentives for making on-time payment of her accruing interest during her at-least-half-time enrollment in college.
- Betty makes the on-time payments each month to receive the interest payment incentives, thereby building good credit, maintaining her original loan balance, and minimizing the total interest that she pays on her student loans.

- When Betty graduates, her loan payment also includes the principal payment but like any amortization schedule, the principal amount in the payment is smaller in the beginning of an amortization schedule. Because this is standard in a loan repayment schedule, her loan payments are not that much higher than what she was paying while she was in school. This makes it easy for Betty to continue the good habit of paying her monthly student loan payment on-time.
- Betty has learned to be responsible with her student loan by making regular on-time payments so she does not become delinquent on her student loan. She continues to pay her student loans as required which **minimizes the cost of collecting her loan**. Because Betty paid her loan, **there is no costly loan forgiveness payment involved**.

*Consider the TREMENDOUS COSTS associated when interest subsidies are NOT given during periods of at-least-half-time enrollment:*

- Peter Procrastinator sees no real reason to pay his interest while he is in school. Why do today what you can put off to tomorrow, right? So, Peter doesn't pay a single penny in accruing interest.
- At the end of his 2-year program, Peter's accrued and unpaid interest is as high as the original principal balance of his loan. He is in shock because he doesn't fully understand how this could happen so quickly. Peter doesn't have that kind of money – if he did, he wouldn't have had to borrow the student loans in the first place. Feeling defeated, he agrees to let the accrued and unpaid interest be capitalized (added to the principal balance of his student loans.)
- Peter is already discouraged about his ability to make on-time payments on his student loans. The payments are twice as high as he was told in his student loan entrance interview when he enrolled in school. He knows it was his choice to not make interest payments but he feels that he was misled in some way. Yes, he was told this would happen but he just didn't fully understand the consequences.
- Peter looks at the standard repayment option and the income-driven repayment (IDR) option. Because the standard repayment option now has payments twice as high as he was expecting, he chooses the IDR option. This makes his loan payment more affordable but puts him into a negative amortization (the payment is lower than the interest accruing on the loan.) Peter knows that this means even more interest will be capitalized on his loans. He also knows that this is a 20-year repayment program instead of a 10-year repayment program so there will be a lot more interest charged. All of a sudden, Peter is angry – the wonderful student loan program has now become a financial burden that is BIGGER than he ever imagined and will take LONGER than he ever wanted to pay off. He looks at this as a financial burden that will last his entire adult life and is angry that he is leaving college discouraged and burdened instead of excited and motivated to begin his new adventures in the job he's been dreaming of for years. Peter's situation is one that affects millions of Americans while at the same time paralyzing their ability to purchase homes, cars, products and services. And the mental and emotional cost is the highest price that our children are paying for graduating from college with such tremendous financial burdens. The economic impact of student loan debt is not scored by the CBO and the hefty COST to taxpayers of collection fees being paid for 20-25 years instead of 10 years adds up quickly.
- Peter is also likely to have a balance at the end of his IDR repayment period. Under current terms and conditions, this balance is "forgiven" at 20-25 years and paid by taxpayers (HUGE COST not scored by the CBO because the scoring only includes 10 years of projected costs) and in many models the amount forgiven is LARGER THAN the original principal balance of the loan.

- Additionally, Peter will receive a Form 1099 for the amount forgiven on which he will owe all applicable taxes – if Peter couldn’t make sufficient payments for the loan to be paid-in-full in 20-25 years, he will likely not be able to make a single “balloon” payment for this tax burden to the IRS and this will be financially devastating to Peter and his family.

The suggested incentive for interest reduction would be inclusive of the incentive provided for a borrower who agrees to have payments on such a loan automatically debited from a bank account because automated payments do not insure money will be in the account when it is debited. The newly defined incentive is directly tied to the on-time payment that is actually made.

**Suggested Legislative Language for Sec. 465 (d):**

“(d) PROHIBITION ON CERTAIN REPAYMENT INCENTIVES.—Notwithstanding any other provision of this part, the Secretary is prohibited from authorizing or providing any repayment incentive or subsidy not otherwise authorized under this part to encourage on-time repayment of a loan under this part, including any reduction in the interest paid by a borrower of such a loan, except that the Secretary may provide for the following:

- (1) AUTOMATED DEBIT PAYMENTS.—An interest rate reduction of not more than 0.25 percentage points for a borrower who agrees to have payments on such a loan automatically debited from a bank account.
- (2) ON TIME PAYMENTS.—An interest rate reduction of not more than half of the percentage points charged not to exceed 4.125 percentage points each month for a borrower who makes monthly payments on time to be inclusive of the automated debit payments defined in (1) of this subsection.
- (3) ON TIME COMPLETION.—A reduction in the amount owed by a borrower up to 10 percent of the original loan balance before any interest was capitalized, if applicable, when a borrower completes a program on time.

### Concerns with the New Federal ONE Loan Program

We applaud creating one loan program for financing college! Simplifying the process is especially beneficial for those first-time borrowers of student loans.

FEDERAL ONE LOAN PROGRAM	Interest Starts Accruing On	Aggregate Loan Limit	Interest Rate	Aggregate Capitalized Interest Limit	Potential Total Loan Debt
<b>Undergraduate DEPENDENT</b>	1 <sup>st</sup> disbursement	\$39,000	10 year high-yield T-bill + 2.05% or 8.25%	\$39,000	\$78,000
<b>Undergraduate INDEPENDENT</b>	1 <sup>st</sup> disbursement	\$60,250	10 year high-yield T-bill + 2.05% or 8.25%	\$60,250	\$120,500
<b>Parent</b>	Last disbursement	\$56,250	10 year high-yield T-bill + 4.6% or 10.5%	\$56,250	\$112,500
<b>Graduate</b>	Last disbursement	\$150,000	10 year high-yield T-bill + 3.6% or 9.5%	\$150,000	\$300,000
<b>Doctorate</b>	Last disbursement	\$235,500	10 year high-yield T-bill + 3.6% or 9.5%	\$235,500	\$471,000

### Top Concerns about the Federal ONE Loan Program:

1. The interest starts accruing at the 1<sup>st</sup> disbursement for student undergraduate students but at the last disbursement for graduate, doctorate and parent borrowers. *First-time student loan borrowers should be given the same, more beneficial, terms as those with more repayment experience. Maintaining, at a minimum, the in-school interest subsidy is an invaluable benefit that is equally, if not more important for undergraduate students, and cultivates the repayment history and responsibility that we expect for all borrowers.*
2. The aggregate of capitalized interest is currently defined as “the maximum limit of the loan”. As seen in the chart above, this would significantly increase the debt burden for students doubling the cost of financing their education. Those that will suffer the most under these terms are the low-income students who are put into negative amortization in the Income-driven Repayment Plans and who utilize deferments and forbearances. Student loans in America are already at a crisis level and this will aggravate the situation not only with exorbitant financial burdens but also with the emotional burdens of starting adult life buried in debt. I truly believe that this will increase defaults when borrowers simply give up hope of ever being able to pay the debt. I urge you to change the maximum aggregate for capitalized interest to “an amount equal to the original loan amount.”
3. The only repayment incentive available is for automatically drafted payments. People react positively to favorable incentives and the addition of incentives to drive program completion and graduation, long-term on-time payments, and early pay-off would be beneficial not only for borrowers, but also for taxpayers.
4. The Prosper Act requirement that borrowers be notified that interest will be capitalized on their loans is set at 60 days prior to entering repayment and again at 30 days prior to entering repayment. This does not give an appropriate or fair amount of time for most borrowers to make interest payments sufficient enough to affect a repayment schedule. Borrowers should be notified early in the process when they can make decisions that will positively affect their financial stability and potential debt burden. Additional notices should be mandated within 30 days and again within 60 days of the date the interest starts accruing on the loans. As seen in the example on page 3 herein, the borrower’s understanding of capitalized interest can represent thousands of dollars and greatly affect their debt burden and long-term payment obligations.

## The Need for Standard Repayment Schedule Options Up to 30 Years

The PROSPER ACT in its current form provides for two options. First is for a Standard Repayment Schedule, **not to exceed 10 years**. Current options for Standard Repayment allow up to 30 years for loan balances in excess of \$60,000. The average student loan balance is now in excess of \$30,000 and, therefore, a longer standard repayment schedule option should be available. Not only does the standard repayment schedule allow the borrower to easily budget a set payment amount, reducing the risk of default, it also has lower administrative costs because once it is set, there is no additional administration needed to manage it. Compared to the Income-driven Repayment Schedules (IDR) that have annual administration costs from more than one government department associated with them, the Standard Repayment Schedule program is by far the best option for most borrowers and for taxpayers.

The income of the borrower would have great bearing on the best repayment schedule option. In these examples, the borrower has a set payment amount that represents the lowest risk of default and there is no taxpayer liability for “forgiving” any balance of the loan.

If a borrower chose an IDR schedule and had a \$30,000 annual salary, their payment would be approximately \$99-\$294/month for 20 years. For any income less than \$30,000, there would be loan forgiveness with a tax burden. IDR should be an option for them to choose, but not mandatory.

If the borrower begins in a low income entry-level job as most graduates do, the payments are lower, which is attractive at the time, but many do not consider the annual administration of this program or the long-term tax liability. If they have been unable to make payments sufficient to pay a loan in full in 20-25 years, there is no way they will be able to pay the tax liability in a “lump sum” when the loan amount forgiven is reported as income.

<b>Dependent Undergraduate Example Using 8.25% Interest</b>					
<b>Student Enrollment Year</b>	<b>Loan Amount</b>	<b>Monthly Interest</b>	<b># months accruing interest</b>	<b>Accrued Interest</b>	<b>Total Loan with Principal &amp; Interest</b>
1st Year	\$ 7,500.00	\$ 51.56	54	\$ 2,784.24	
2nd Year	\$ 8,500.00	\$ 58.44	42	\$ 2,454.48	
3rd Year	\$ 9,500.00	\$ 65.31	30	\$ 1,959.30	
4th Year	\$ 9,500.00	\$ 65.31	18	\$ 1,175.58	
	\$ 35,000.00			\$ 8,373.60	\$ 43,373.60

**10-YEAR STANDARD REPAYMENT, INTEREST PAID AS IT ACCRUED**

**\$35,000 Original Loan Amount:**

- Loan amount entering repayment is \$35,000.
- Loan payment will be **\$429.28** for 10 years under standard repayment.
- Total of 120 Payments (P & I) is \$51,514.10.
- Total interest paid while in school is \$8,373.60.
- **Total amount paid over the term of the loan is \$59,887.70.**
- **Total interest paid is \$24,887.70.**

**20-YEAR STANDARD REPAYMENT, INTEREST PAID AS IT ACCRUED**

**\$35,000 Original Loan Amount:**

- Loan amount entering repayment is \$35,000.
- Loan payment will be **\$298.22** for 20 years under standard repayment.
- Total of 240 Payments (P & I) is \$71,573.51.
- Total interest paid while in school is \$8,373.60.
- **Total amount paid over the term of the loan is \$79,947.11.**
- **Total interest paid is \$44,947.11.**

**10-YEAR STANDARD REPAYMENT, INTEREST NOT PAID AS IT ACCRUED**

**\$35,000 Original Loan Amount:**

- Loan amount entering repayment is \$43,373.17.
- Loan payment will be **\$531.98** for 10 years under standard repayment.

- Total of 120 Payments (P & I) is \$63,838.00.
- Total interest paid while in school is \$0.00.
- **Total amount paid over the term of the loan is \$63,838.00.**
- **Total interest paid is \$28,828.**

#### **20-YEAR STANDARD REPAYMENT, INTEREST NOT PAID AS IT ACCRUED**

##### **\$35,000 Original Loan Amount:**

- Loan amount entering repayment is \$43,373.17.
- Loan payment will be **\$369.57** for 20 years under standard repayment.
- Total of 240 Payments (P & I) is \$88,697.17.
- Total interest paid while in school is \$0.00.
- **Total amount paid over the term of the loan is \$88,697.17.**
- **Total interest paid is \$53,697.17.**

## The Need for Consistent Names of Repayment Plans

Language throughout the Higher Education Act of 1965 for income-driven programs includes terms for “income-driven” and “income-based” repayment plans. This inconsistency is confusing. Since streamlining the repayment plans is an objective of this Congress, we strongly suggest that only one of these terms be used consistently throughout the legislation and regulatory language.

## The Need for Additional Terms for Borrowers Included in Positive Repayment

Certain deferments as defined in Sec. 469A(b)(1) are included in the definition of “positive repayment” for calculating an institution’s repayment rate; however, no definition exists for circumstances where an administrative forbearance or natural disaster forbearance is in place at the time a repayment rate is calculated. When an administrative forbearance or natural disaster forbearance is granted and the circumstances related to such forbearances is beyond an institution’s control, an institution’s repayment rate should be adjusted accordingly. (i.e. Misapplied deferments or errors made by federal servicers or hurricanes, floods, etc.)

For example, in 2017 there were many hurricanes and related natural disasters that occurred and thousands of natural disaster forbearances were in place at the end of September when the repayment rate would have been calculated. Schools in the affected regions would have suffered severe consequences of reporting poor repayment rates because of “acts of God” that were beyond their control.

Another example is when federal servicers take more than 30 days to rehabilitate a defaulted loan or to process a disability or military deferment. When this happens, institutions can have repayment rates that adversely reflect a status that is not included in positive repayment when the status exists from ineffective servicing by the federal loan servicer. These circumstances are not reflective of the institution’s quality of education.

We urge lawmakers to include administrative forbearances that are not related to an institution’s quality of education and natural disaster forbearances as part of an institution’s positive repayment.

## The Need for a Variable Repayment Rate Threshold

In considering a baseline for repayment rates, care must be taken to develop realistic expectations that will prevent unintended consequences of eliminating education programs that are important to the U.S. workforce and economy and that also attract a larger number of at-risk students than other, more traditional programs. Many programs have lower starting earnings, for example in entry-level healthcare jobs, but they provide for stable and long-term employment especially for at-risk populations like predominantly females who are also low-income single parents.

There are also variables in the economy that affect repayment rates and are totally unrelated to the quality of education. Programs should not be unfairly measured when a bad economy is affecting the outcome of the measurements.

Additionally, the elimination of interest subsidies will have a negative impact on a student's ability to repay student loans because the increased loan amount is significant for most students. For example, a student in a 4-year program who doesn't pay the accruing interest during the in-school deferment period will have approximately the equivalent of 25% of the original loan balance in accrued and unpaid interest that will be capitalized when the repayment period begins. This change is based on the federal fiscal budget and not based on improving or maintaining the quality of education for our students; therefore, a lower base for repayment rates is appropriate. We suggest a calculation using 40% as a base repayment rate with a variation for rates based on applicable unemployment rates.

From 1997 to 2017, the average unemployment rate is 6%. If we use this to calculate a variation from the 40% base repayment rate, a fair and equitable repayment rate can be achieved. The variation is calculated by taking the applicable unemployment rate and subtracting the average unemployment rate for the year of calculation from 6%. This variation is added to or subtracted from 40% to get the repayment rate used for that year.

A chart based on the Bureau of Labor Statistics data is attached to this document. You will see in this chart that during the great recession between 2009 and 2014, the repayment rates were under 40%. As the economy has recovered, it has been above 40%.

The following example explains the calculation:

In 2017, the average unemployment rate was 4.4%. When you subtract this from 6%, you get 1.6%. When this is added to the base of 40%, the applicable repayment rate for data calculated in 2017 is 41.6%. This is a fair and equitable calculation.

### Repayment Rate Threshold for 2017 Determination of FY 2015 Data

Repayment Rate Base Rate:	40%
Repayment Rate Variable:	1.6% or (6% - 4.4%)
Applicable Repayment Rate:	41.6%

## Sufficient Time for Approved Plans to Be Effectively Measured and the Transition from Cohort Default Rates to Repayment Rates

The proposed period of three (3) years to transition from cohort default rates (CDRs) to repayment rates is concerning for these primary reasons:

1. Data has not been provided to determine the impact of this definition on programs and schools.
2. Similar language for rates over the threshold has been used for CDRs for schools to develop plans to bring their rates into compliance; however, there is strong evidence that shows the measurement period for affecting rates is MUCH LONGER than has been given for either CDRs or repayment rates. As seen in the chart below, because the definitions for these rates uses a 3-year window and another year is added before the rates are publicly released, a newly approved default prevention plan or repayment rate plan will not affect any rate in the three (3) years used to determine eligibility. From the time a plan is approved, a minimum of two (2) full fiscal years from the approval date is warranted to truly measure the effectiveness of the plan's components as defined in the "measurable objectives".

*For this reason, the transition period and the eligibility period determination should be increased to 7-8 years, preferably 8 years, which will allow time for any approved plan to take effect and have time to produce results of the "measurable objectives" included in the plan.*

REPAYMENT RATE YEAR	FY1	FY2	FY3	FY4	FY5	FY6	FY7	FY8	FY9	FY10	FY11
1											
2											
3					plan has little to no effect						
4					plan has effect on about half of students measured						
5											
6							still have time to affect				
7											
8											
FIRST APPROVED PLAN						REVISED PLAN					

## Additional Repayment Rates Concerns

The following are the primary concerns for the repayment rates as defined:

1. Time given for examining data for corrections is 30 days instead of 45 days as given for CDR corrections and appeals. The 45 days for CDRs was increased from 30 days because it was determined that 30 days was not a sufficient amount of time.
2. There is no consideration for programs where a need for the education can be proven and there is no other option for getting that education. There are many areas of the country with at-risk socio-economic populations and employers in great need of graduates.



3. The repayment rate criteria for Consolidated Loans is defined in the same section as that for foreign programs as 70%. With CDRs, the underlying loans are associated with the original schools and programs. The consolidation loan may have multiple schools and programs involved. This high rate criteria for consolidation loans doesn't make sense and it will also not be measurable as far as being associated with a programmatic repayment rate. We strongly suggest that consolidation loans be measured based on the associated schools and programs of the underlying loan criteria.
4. In the past, it has been a common practice for federal loan servicers to change the "repayment date" on a loan to the date the borrower makes the first payment. If this practice continues and students make interest payments on their loans, the calculation will be inaccurate. This practice should be addressed and defined in the repayment rate definition for "date entered repayment."

### Champion College Services' Estimated Repayment Rates

While we have not made program changes to our system, Champion College Services has pulled data to see the estimated impact of the repayment rates on our clients. The following information is for our entire portfolio which consists of schools offering a wide variety of programs. The majority of our clients serve at-risk populations and have been clients long enough for us to make a positive impact on these repayment rates because we have always encouraged payments first and provide borrower education and financial literacy focused on the at-risk and inexperienced borrower population.

We are providing the most recent active cohort of borrowers that is consistent with the first repayment rate defined in the Prosper Act. We are not providing prior data because the new definition will require us to service the students for a longer period of time and we can make that adjustment to the FY 2016 cohort of repayment rate borrowers and subsequent cohorts.

***I do want to state clearly that the data from prior years during the great recession show rates below the proposed threshold of 45% for many schools even though their CDRs are under the threshold and with everything that Champion does to support student borrowers which shows that the economy greatly influences these rates and the state of the economy is not related to the quality of education, it is directly related to the unemployment rate and earnings during a bad economy. The 2016 data shows that the repayment rate improves when the economy improves. I urge you to consider this when imposing this measure as one tied to the quality of education.***

LOAN STATUS	FY 2016 TO DATE
<b>REPAYMENT RATE AS CURRENTLY DEFINED (Repayment + Delinquent Less Than 90 Days)</b>	<b>51.9%</b>
Repayment	31.2%
Delinquent Less Than 90 Days	8.9%
Deferment	7.2%
Forbearance	11.4%
Delinquent More Than 90 Days	8.9%
Default	12.8%