NASFAA Update

Agenda

- Washington Political Climate
- Review of Fiscal Cliff Triggers
- NASFAA Proactive Policy
- Advocacy & You
- Questions?

Washington Climate
Climate Drivers

1. Partisanship & Brinkmanship
2. Budget Politics Dictating Policy
3. Deficit Reduction

Federal Budget Pie
How Big is Our Piece?

U.S. Federal Spending – Fiscal Year 2012 ($ Billions)

- Non-Interest
- Medicare & Medicaid
- Defense
- Interest
- Discretionary

Source Data: Office of Management

Fiscal Cliff Triggers

- Sequestration
- FY 13 Budget
- FY 14 Budget
- Debt Ceiling
Sequestration

› What is it?
  • Across-the-board cutting mechanism
  • Impacts both mandatory and discretionary spending
  • Lasts 10 years

› How did we get here?
  • Budget Control Act
  • Failure of the “Super Committee”

Sequestration

› How does it impact student aid?
  • FWS—5 percent cut for AY 2013-14 (fair share only)
  • SEOG—5 percent cut for AY 2013-14 (fair share only)
  • TEACH—12.6 percent cut for awards first disbursed after March 1
  • Origination fee increases:
    • Direct Loans: Increase from 1.00 to 1.051
    • PLUS: Increase from 4.00 to 4.204

› What about the Pell Grant?
  • Pell is exempt in during the first year
  • Pell is not exempt in years 2-10

Sequestration

› What can we expect next?
  • Sequestration is a 10–year process. Congress can, at any time, repeal sequestration
  • Currently there is not any momentum to halt sequestration, but that could change, given the out–years pose significant, and different harmful cuts
Fiscal Year 2013 Budget

- Congress passed a final FY 2013 budget mid-March
  - Funds federal government through Sept. 30
  - Impacts award year 2013–14
  - Funds (for the most part) federal government at 2012 levels
  - Sequester cuts are then imposed on those levels
  - Pell maximum will be $5,645

Fiscal Year 2014 Budget

- Impacts award year 2014–15
- House and Senate have both passed their budget resolutions (“Roadmaps”)
- Next step is the appropriations process
- President Obama recently released FY 2014 Budget Request

President Obama’s FY 2014 Budget

- Federal Loans
  - Restructure federal student loan interest rates so they are determined by the cost of government borrowing and aligned with market rates.
  - Rates would be set using the 10-year Treasury note (“T-bill”) plus add-ons of:
    - .93 percentage points for Subsidized Stafford
    - 2.93 percentage points for Unsubsidized Stafford
    - 3.93 percentage points for PLUS
  - Loan rates would be determined annually and then fixed for the life of the loan
  - Proposal does not provide a cap
President Obama’s FY 2014 Budget

Federal Loans, continued
- Expand current Pay As You Earn (PAYE) repayment plan to all student borrowers
- PAYE is available now for a certain group of borrowers
  - Loan payment would not exceed 10 percent of discretionary income
- Loan forgiveness after 20 years
- Change guaranty agency compensation for rehabilitating defaulted loans by reducing to 16 percent the fee they can charge to a borrower on outstanding balances

Grants
- Maintain maximum Pell Grant of $5,785 for award year 2014-15. This amount takes into account the scheduled Consumer Price Index (CPI) in mandatory funds
- Replace TEACH Grant with a new Presidential Teaching Fellows program
  - Block grant to states to fund students in “high-performing” teacher prep programs
  - Scholarships of up to $10,000 in final year

Campus-based aid
- Provide $150 more in funds to FWS; goal of doubling number of participants in five years
- Expand Perkins:
  - Increase from $1 billion to $8.5 billion
  - Unsubsidized, same interest rate as Unsubsidized Stafford
- Would allow for 2,700 additional institutions
- Reform SEOG and FWS allocations to reward colleges who:
  - Keep tuition low; enroll and graduation high numbers of Pell-eligible students; provide good value
President Obama’s FY 2014 Budget

Access and Affordability Proposals
- Create incentives for states and colleges, mirrored after the K–12 Race to the Top initiative, to keep costs under control through a $1 billion investment in a new challenge to states to spur higher education reform focused on affordability and improved outcomes across states and universities.
- Provide $260 million for the Fund for the Improvement of Postsecondary Education (FIPSE). FIPSE funds support competitive grants to explore projects that are models for innovative reform in higher education and that support K–12 through higher education pipeline initiatives.

Other Triggers

Subsidized Stafford Loan Interest Rate
- Set to rise from 3.4 percent to 6.8 percent on July 1
- Last year Congress passed a one-year extension
- NASFAA is advocating for a long-term, sustainable, market-based solution

Consumer Information Overload
- More than 6 proposals over the last two years

Reauthorization
- Based on the current expiration of the HEA, reauthorization should (in theory) occur in 2014

NASFAA Proactive Policy
Proactive Policy

- Reimagining Aid Design & Delivery Project (RADD)
- Award Letter and Consumer Information Task Force
- Task Force on Student Indebtedness
- Reauthorization Task Force
- Consumer Testing of Award Letters

Reimagining Aid Design & Delivery

- Funded by The Gates Foundation
- Focuses on four Policy Areas:
  - Examining the Value of Institutional and Student Skin in the Game
  - Reforming Student Loans
  - Streamlining and Improving Consumer Information
  - Rethinking Entitlement Aid and Professional Judgment

Specific recommendations:

- Super Pell
- Campus-based aid and graduation rates
- Student loan eligibility index
- Automatic income-based repayment (IBR)
- Pell Promise
- Pell Well
- Provide predictive wage information
- School authority to limit loans
Award Notification Task Force

- Commissioned by NASFAA Board in November 2011
- Examined best practices in award letter notifications and provided recommendations
- Findings support standardizing elements, but not a standardized letter; a standardized letter risks being too prescriptive

Award Notification Task Force

- Four recommendation topics:
  - Core Elements of an Award Notification
  - Glossary of Standardized Award Letter Terminology
  - Loan Aggregator and Calculator
  - Student Consumer Information

Award Letter Task Force Report

- 10 Core Elements:
  - Cost of Attendance
  - Scholarship and Grant Awards (Gift Aid)
  - Net Costs After Gift Aid
  - Self-Help Options
  - Assumptions (enrollment, housing status, etc)
  - Link to Resource of Total Loan Debt (Aggregator) and Calculator from ED or other Third Party
  - Link to Consumer Information Disclosures
  - Link to a Public Glossary of Standard Terms and Definitions
  - Contact Information for the Financial Aid Office
  - Deadlines and Next Steps
Concern about the amount students are borrowing and their ability to repay their loans

NASFAA convened a task force on student indebtedness was charged with examining student borrowing, debt, and repayment

Report was released in February

Recommendations:

◦ Allow Institutional Authority to Set Loan Limits for Certain Borrowers
◦ Rethink the Current Structure of Loan Subsidies
◦ Implement a “Variable, Fixed” Interest Rate Based on Annual Market Rate
◦ Tighten Underwriting Standards for Parent PLUS Loans

Recommendations, cont.:

◦ Create a Universal Loan Portal for Students
◦ Standardize the Process for Repayment Options
◦ Shift Traditional Entrance & Exit Counseling Toward the Department of Education’s Financial Awareness Counseling Tool
◦ Re-visit the Regulatory Burden of Private Lender Lists
Reauthorization Task Force

- Group convened in January 2012
- Held listening sessions at conferences throughout the country
- Final Recommendations in July 2013
- Subcommittees
  - Need Analysis
  - Loans
  - Consumer Information
  - R2T4
  - Pell, General Provisions

Consumer Testing of Award Letters

- NASFAA consumer-tested three award letters with students and parents:
  - US Department of Education Shopping Sheet
  - Letter formed from NASFAA Award Letter Task Force
  - A hybrid of the first two
- Main finding? No Clear Winner
  - Consumers found things they liked and didn't like, about each letter
  - Reinforces the need to consumer test before making public

Advocacy & You

- Visit our Facebook Page!
- Visit our website: www.nasfaa.org/advocacy
- Write letters to your delegation and to Education Committee members
- Get students involved!
- Use our tools as examples