

▶ **Report of the NASFAA Task Force on Student Loan Indebtedness**

February 2013



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ADVOCACY**



NASFAA

NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

REPORT OF THE NASFAA TASK FORCE ON STUDENT LOAN INDEBTEDNESS

The National Association of Student Financial Aid Administrators

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FOREWORD

A moderate amount of borrowing for a postsecondary education—and the subsequent outcome of higher earnings from better employment—is a wise and reasonable decision. Recently, however, there has been a heightened interest in student borrowing, particularly surrounding the increased reliance on loans, levels of indebtedness, and rising institutional cohort default rates (CDRs). Student aid administrators, policymakers, and the general public have all expressed concerns about these issues, which ride tandem with increasing concerns over college prices, affordability, and transparency.

Anecdotal stories about student loan indebtedness are commonly heard in the halls of Capitol Hill, the mainstream news media, and at kitchen tables across the country. We know that borrowing has increased and that, as a result, students and families are shouldering a greater portion of the cost of college through loans than they have in years past. But we also know that the average loan debt for borrowers who earned a bachelor's degree is, in fact, a manageable amount—coming in at about \$26,500 for the class of 2011, according to The Institute for College Access and Success. Over a 10-year standard monthly repayment plan, the monthly payment would be just about the same as a modest car payment.

Unfortunately, too often the stories of statistical outliers grab public attention and drive policy discussions. Focusing on outliers inhibits our collective ability to really focus on student and parent borrowers who need help the most. The NASFAA community acknowledges that dramatic student loan borrowing is certainly problematic, but it is even more important to acknowledge that what should be manageable amounts of borrowing can spiral out of control when students are not academically prepared for college, repayment tools are not readily accessible, schools have little to no control over borrowing, or the borrower has had inadequate financial literacy counseling or preparation.

In response to these concerns, NASFAA convened a Task Force on Student Indebtedness made up of financial aid administrators from all sectors of our membership. The task force was charged with examining current trends in student loan borrowing, and repayment—and making recommendations for curbing and better managing student loan debt. Understanding that more and more students and families are relying on student loans, the task force put forth issues in the spirit of improving the student loan system for students and institutions throughout all stages of borrowing, including pre-borrowing, in-school, and repayment. NASFAA's Board of Directors reviewed and approved the recommendations featured in this report. Taken together, we hope that they will have a meaningful impact on student and parent borrowers who are struggling to cope with loan indebtedness.

Justin Draeger
NASFAA President & CEO

EXECUTIVE SUMMARY

In response to growing concerns about the amount students are borrowing and their ability to repay those loans, the NASFAA Board of Directors convened a Task Force on Student Indebtedness that was charged with examining student borrowing and repayment and making recommendations for how students, institutions, and the federal government can curb and better manage student loan indebtedness.

The task force comprised a geographically diverse group of NASFAA members from all types of postsecondary institutions, including two- and four-year publics, four-year not-for-profits, for-profit, and graduate/professional. They met several times, both in-person and via conference call, and engaged in healthy, challenging, and innovative discussions regarding student borrowing. They surveyed current research and trends with an eye toward what is working in the current student loan system and what needs to be improved.

Particular attention was given to examining the entire borrowing process that students go through, including pre-borrowing, in-school, and repayment, and to looking for ways in which debt can be better managed at each stage. In addition, the group sought to develop recommendations applicable to the various stakeholders in borrowing—students, institutions, the federal government, and private lenders.

Based on their research and discussions, the task force developed, and the NASFAA Board of Directors endorsed, the following recommendations detailed in this report:

RECOMMENDATION #1: ALLOW INSTITUTIONAL AUTHORITY TO SET LOAN LIMITS FOR CERTAIN BORROWERS

The task force recommends that financial aid administrators be given the authority to limit loan amounts in certain scenarios. Specifically, the task force recommends that institutions be allowed to limit borrowing based on institutional factors, credential, or program level. Using professional judgment, aid administrators should still have the authority to allow students to borrow up to the federal annual and aggregate limits on a case-by-case basis.

RECOMMENDATION #2: RETHINK THE CURRENT STRUCTURE OF LOAN SUBSIDIES

The task force recommends that the federal government consider how front-end interest subsidies could be replaced by better targeted subsidies. Ideas include moving the subsidy to repayment, through the implementation of an enhanced Income-Based Repayment (IBR) program that would become the automatic repayment plan for all student borrowers.

RECOMMENDATION #3: IMPLEMENT A “VARIABLE, FIXED” INTEREST RATE BASED ON ANNUAL MARKET RATE

The task force recommends that the federal government implement an interest rate policy wherein rates would vary from year to year based on the total cost to the government to lend and service those loans. The rate should be variable based on the year the student takes out the loan, but then fixed at that rate for the life of the loan. The task force also recommends that loan origination fees be eliminated.

RECOMMENDATION #4: SEPARATE THE GRAD PLUS AND PARENT PLUS LOAN PROGRAMS AND TIGHTEN UNDERWRITING STANDARDS FOR PARENT PLUS LOANS

Currently, both Parent PLUS and Grad PLUS loan borrowers must have “no adverse” credit history in order to borrow. The task force recommends that the PLUS program be separated into Grad PLUS and Parent PLUS programs and that parent borrowers should be held to a more restrictive underwriting standard in the future.

RECOMMENDATION #5: CREATE A UNIVERSAL LOAN PORTAL FOR STUDENTS

The task force recommends that Congress mandate the creation of a single web portal where students can easily go to access information about all of their loans—federal, private, and institutional.

RECOMMENDATION #6: STANDARDIZE LOAN SERVICING POLICIES AND PROCEDURES

The task force recommends that the Department of Education (ED) standardize the process for placing a student in the various repayment plans, including acceptable documentation and forms to be used by all servicers, the repayment start date, and the timing and method for capitalization of interest on federal student loans.

RECOMMENDATION #7: SHIFT TRADITIONAL ENTRANCE & EXIT COUNSELING TOWARD THE DEPARTMENT OF EDUCATION’S FINANCIAL AWARENESS COUNSELING TOOL

The task force recommends that ED transition the Financial Awareness Counseling Tool (FACT) into an entrance and exit counseling module that would satisfy legislative loan counseling requirements.

RECOMMENDATION #8: REVISIT INSTITUTIONAL REQUIREMENTS FOR PRIVATE LENDER LISTS

Modify the current requirement that institutions must perform and report to the federal government a comparative review of private loan terms and conditions before the school may provide a preferred lender list to students. Instead, simply require adherence to a code of conduct, disclosure to families of the criteria used to develop a preferred lender list, and assurance that families may choose any lender not on the list. In addition, require full institutional certification of private education loans.

The task force believes that these recommendations are worthy of additional consideration and discussion and that taken together, they could have a measured and significant impact on both loan indebtedness and default rates.

TASK FORCE MEMBERS

Members of the Task Force on Student Indebtedness include:

CHAIR:

- Chuck Knepfle—Clemson University

MEMBERS:

- Brenda Brown—University of Miami School of Law
- Chris Christensen-Valencia College
- Dan Davenport—University of Idaho
- Ron Day—Kennesaw State University, NASFAA National Chair
- Pam Fowler—The University of Michigan, NASFAA Past National Chair
- Anna Griswold—The Pennsylvania State University
- Rita Grogan—Mission College
- Jane Hickey—University of Maryland University College
- Kevin Jensen—College of Western Idaho
- Craig Munier—University of Nebraska, NASFAA National Chair-Elect
- David Page—Philander Smith College
- Bernie Pekala—Boston College
- Tom Sakos—DeVry Inc.
- Yara Santana—The John Marshall Law School
- Rick Shipman—Michigan State University
- Joan Zanders—Northern Virginia Community College

ABOUT NASFAA

The National Association of Student Financial Aid Administrators (NASFAA) is a nonprofit membership organization that represents approximately 20,000 financial aid professionals at 3,000 colleges, universities, and career schools across the country. Each year, financial aid professionals help more than 16 million students receive funding for postsecondary education. Based in Washington, D.C., NASFAA is the only national association with a primary focus on student aid legislation, regulatory analysis, and training for financial aid administrators. For more information, visit www.nasfaa.org.

POLICY CONTEXT

There is a general and growing concern about student loan indebtedness, and few would argue that the student loan system is without flaws. Lawmakers, in particular, are becoming more concerned with student debt, as has been made clear through related bills, hearings, and conversations with congressional staff. Without a doubt, student loan reform will be a major topic of conversation during the Higher Education Act (HEA) reauthorization process, set to occur within the coming years.

SCOPE

The Task Force on Student Indebtedness put forward recommendations with the intent of assisting undergraduate and graduate students, institutions, and the federal government in curbing student loan indebtedness. Recognizing that the student loan borrowing process encompasses far more than just the time when a student is in school, the task force developed recommendations to aid borrowers at every stage of the student loan borrowing process: before the student borrows (pre-borrowing), while the student is in-school, and during the borrower's repayment. Each recommendation is the product of thoughtful and healthy discussion among experienced financial aid professionals, guided by the goals and principles listed below.

GOALS

At its initial meeting, the task force committed to develop recommendations that would ultimately result in:

1. More informed borrowers;
2. More responsible borrowing;
3. Tools or frameworks for institutions to assist borrowers;
4. More borrowers successfully repaying their loans; and
5. Federal and institutional policies that reinforce all of the above.

UNDERLYING PRINCIPLES

NASFAA's Core Advocacy Principles guided the work of the task force. The task force committed to putting forth innovative ideas and recommendations that are aimed at curbing indebtedness and are aligned with the principles that drive NASFAA's mission:

1. Promote fairness and equity for students across all sectors of postsecondary education, with a particular emphasis on disadvantaged students, i.e., low-income, underrepresented, and underserved students;
2. Stress the primacy of need-based aid;
3. Support policies that address the needs of disadvantaged students;
4. Advocate for accountability;
5. Encourage simplicity and predictability;

6. Empower student financial aid professionals and their schools with the flexibility to respond to the specific needs of their students;
7. Recommend policies that accommodate the diversity of academic delivery models;
8. Encourage the use of technology wherever possible;
9. Eliminate statutory requirements that use the financial aid programs to enforce unrelated social policies;
and
10. Validate proposed recommendations with research and data analysis wherever possible.

RECOMMENDATIONS

RECOMMENDATION #1: ALLOW INSTITUTIONAL AUTHORITY TO SET LOAN LIMITS FOR CERTAIN BORROWERS

The task force recommends that institutions be given the authority to limit loan amounts across the board in certain circumstances. For example, aid administrators could be given authority to limit borrowing for the entire institution, or for the credential offered, or based on the program level. Importantly, they would still have the authority to allow students to borrow up to the federal annual and aggregate limits on a case-by-case basis, through the use of professional judgment.

Borrower Stage Impacted

In-school and repayment

Rationale

Federal law sets the annual loan limits for the Direct Loan program. Institutions must prorate loan limits for academic programs less than a year in length or if the student is in a final period of enrollment of less than one year; no other proration of the statutory annual loan limits exists. This lack of restriction on annual loan limits can lead students to accumulate high loan debt very quickly without making progress toward degree completion, or to struggle to repay loan debt that is excessive relative to the expected earnings for the student's field of study or credential. For example, under current law students can:

- Borrow up to the maximum annual loan limit for as little as half-time enrollment;
- Borrow year after year in an associate's degree program until they reach the undergraduate maximum aggregate loan limit, which was intended to accommodate borrowing for a baccalaureate degree;
- Enroll for one term in the middle of their academic program and borrow the entire maximum annual loan limit for that term;
- Borrow maximum annual loan limits to pay the costs of educational programs that traditionally lead to jobs with limited salary expectations.

Institutions have very few practical ways to prevent students from over-borrowing. Current statute views student loans as "entitlements," and institutions can deny or limit loan eligibility only on a case-by-case basis under Section 479A, Discretion of Student Financial Aid Administrators, of the Higher Education Act, otherwise known as "professional judgment." Applying professional judgment is time consuming because each case must be considered individually, and all decisions must be documented. Additionally, institutions are reluctant to use their authority to deny or restrict loan eligibility because they may be subject to lawsuits or civil rights actions.

Beyond this limited professional judgment authority, advice and counseling are the only means available to an institution to prevent over-borrowing. If students insist on borrowing up to their maximum eligibility under the law, institutions have little practical choice but to approve their loans. In some instances, institutions have attempted to require additional counseling or documentation from students before borrowing, but the

Department of Education (ED) has rebuffed those attempts, stating that because loan funds are considered entitlement dollars, institutions cannot add eligibility criteria to the loan programs.

The viewpoint of loan funds as entitlement dollars also creates an environment where institutions have limited control over their cohort default rates (CDR), which can affect an institution's Title IV eligibility. Institutions with high CDRs may lose their eligibility to participate in the Direct Loan and Federal Pell Grant programs, yet they have very limited control over how much money students borrow. This represents a fundamental disconnect in federal policy because institutions are responsible for student loan defaults but they do not have the reasonable authority needed to help prevent defaults.

Under this proposal, institutions that impose lower limits for categories of students would have the authority to use professional judgment to allow an individual student to borrow up to the federal annual and aggregate limits on a case-by-case basis. At its core, this proposal would invert the current professional judgment authority: rather than institutions using professional judgment to restrict loan borrowing on a case-by-case basis, institutions could establish lower loan limits for broad categories of students, and then use their professional judgment authority to permit students to borrow more than those established limits, up to the annual maximum set in law. Ideally, this would reduce over-borrowing, decrease CDRs, and provide a more efficient use of professional judgment.

Importantly, nothing in this section shall be construed as a proposal to allow institutions to limit borrowing based on race, sex, color, religion, national origin, age, disability status, or any other protected class.

RECOMMENDATION #2: RETHINK THE CURRENT STRUCTURE OF LOAN SUBSIDIES

The task force recommends that the federal government consider options for replacing front-end in-school interest subsidies with better-targeted subsidies. In particular, the task force supports further exploration of one such solution: an automatic Income-Based Repayment (IBR) program.

Borrower Stage Impacted

Repayment

Rationale

Interest subsidies are available to students based on their current financial situation—or for dependent students, on their parents' finances—rather than taking into consideration their potential income during repayment, which is often more relevant to the borrower's ability to repay. There is also little if any evidence to suggest that loan subsidies on the front end impact access to higher education. Moving the subsidy to repayment by implementing an automatic IBR program would ensure that loan payments are reasonably aligned with each borrower's ability to repay.

An automatic IBR program would likely aid in reducing CDRs. The national student loan CDR has crept up over the past several years—according to ED, it grew from 4.5 percent in 2005 to 9.1 percent in 2012—even after the introduction of the existing IBR. The current IBR program, in which borrowers pay no more than 15 percent of their discretionary income and receive loan forgiveness after 25 years, continues to have a less-

than-optimal participation rate. For example, of the 37 million borrowers with outstanding loan balances, only 1.1 million are enrolled in IBR (Brown, Haughwout, Lee, Mabutas, & van der Klaauw, 2012; Nelson, 2012,). One factor contributing to the low uptake rate of IBR is that it is an *optional* repayment plan. Given that borrowers must take several proactive steps on their own to enroll in IBR, it is easy to understand at least part of the reason why participation is lower than desired.

Automatic IBR would not eliminate loan defaults entirely; however, if all students were automatically enrolled in IBR, then “inability to repay” would no longer be a reason for default. Automatically linking borrower repayments to borrower income would eliminate unnecessary defaults that occur because the borrower is unaware of or confused by current repayment options. Default rates would decrease, as would the harmful personal consequences of loan default and the taxpayers’ burden of the costs of a defaulted loan.

The United Kingdom and Australia offer student loans with automatic income-based repayment. Although their higher education systems and government agency structures and operations differ from those in the United States, their methods could provide models for implementing automatic IBR in a simple and straightforward manner.

RECOMMENDATION #3: IMPLEMENT A “VARIABLE-FIXED” INTEREST RATE BASED ON ANNUAL MARKET RATE

The task force recommends that the federal government implement an interest rate policy wherein rates would vary from year to year, based on the total cost to the government to lend and service those loans. The rate should be variable based on the year the student takes out the loan, but then fixed at that rate for the life of the loan. This would ensure that student loan interest rates are aligned with market forces, in contrast to the existing interest rate policy that sets interest rates in statute years in advance without consideration for economic conditions at the time of borrowing.

The task force also recommends that loan origination fees, a practice held over from the earlier Federal Family Education Loan Program (FFELP), be eliminated.

Borrower Stages Impacted

In-school and repayment

Rationale

At best, the current structure of interest rates—whereby rates are set into law years in advance—is confusing, unpredictable, and out of touch with current fiscal realities. These shortcomings were underscored in 2012, when Direct Subsidized Stafford Loan rates were set to double from 3.4 percent to 6.8 percent.

A 6.8 percent rate clearly would have exceeded current market rates in the spring of 2012, but the larger issue concerned the policy for setting federal student loan interest rates. Political rhetoric and messaging on the issue largely ignored the fact that the scheduled doubling of the Direct Subsidized Loan interest rate, from 3.4 percent to 6.8 percent on July 1, 2012, was the result of annual fixed rates set in law through the 2007 *College Cost Reduction and Access Act*. In this instance, key stakeholders mobilized against the rate increase and

Congress ultimately passed a temporary, one-year extension of the 3.4 percent interest rate, which came with a \$6 billion price tag. Unfortunately, the larger policy issue was not addressed as part of the resolution, forcing a repeat of the same scenario this coming July 1, 2013.

NASFAA has long advocated for a long-term policy that makes student loan interest rates stable and predictable. An interest rate based on the cost of lending at the time the loan is made, which then remains fixed at that rate for the life of the loan, would achieve this desired stability and predictability. While market swings may prevent students and families from forecasting their exact rate, the stability and predictability would come from having a standard formula through which interest rates are derived. This “variable-fixed” rate would help protect students against exorbitant interest rates while also ensuring that student loans remain relatively in sync with prevailing market forces.

A variable-fixed interest rate could be implemented in a myriad of ways. One option would be to set the rate at the 10-year Treasury bill (T-bill) plus X percent (where X represents the costs of originating and servicing student loans). The rate would be set when the loan is borrowed and held at that rate for the life of the loan—a feature that would protect students’ current loans against the consequences of future market forces, should rates go up. Proposals supporting such a concept have surfaced on Capitol Hill through provisions in the *Comprehensive Student Loan Protection Act*, introduced by Senators Tom Coburn (R-OK) and Richard Burr (R-NC), and the *Earnings Contingent Education Loans Act of 2012*, introduced by Representative Tom Petri (R-WI).

The task force also recommends eliminating origination fees. These fees were put into place decades ago and were never intended to be permanent. Direct Loan costs include the federal government’s expense in obtaining loan funds and servicing loans, and the institution’s expenses in administering the program. The interest on Direct Loans should fully cover these expenses. The origination fees that are currently in place are unnecessary, inappropriate, and effectively serve as a tax on our lowest-income students.

RECOMMENDATION #4: SEPARATE THE GRAD PLUS AND PARENT PLUS LOAN PROGRAMS AND TIGHTEN UNDERWRITING STANDARDS FOR PARENT PLUS LOANS

The task force recommends that the PLUS program be separated into two programs, one for graduate/professional students and one for first-time parent borrowers. Parent PLUS borrowers should be held to a more restrictive underwriting standard in the future, such as an appropriate evaluation of debt-to-income ratio.

Borrower Stage Impacted

Pre-borrowing, in-school, and repayment

Rationale

Currently, there is one PLUS Loan program available to both parents (Parent PLUS) and graduate students (Grad PLUS). Although the typical borrowing profiles of parents and graduate/professional students are very different, the same credit standards apply to both parent and graduate/professional borrowers (i.e., PLUS borrowers must have no adverse credit history in order to borrow). The term “no adverse credit history” is not a strict measure of underwriting, yet borrowers under both Parent PLUS and Grad PLUS can borrow up to the

cost of attendance, which can be in the tens of thousands of dollars in some cases. Separating the Grad PLUS and Parent PLUS programs allows for variations, such as credit standards, that are tailored to the differences in these two distinct types of borrowers.

PLUS loans are limited only by unmet cost of attendance and the credit history of the borrower. The assumption has been that parents are more mature and financially literate and therefore will not borrow more than can be repaid within the requirements of the loan. However, because the only limit beyond unmet cost of attendance is the current “no adverse credit” check, the ability to repay based on income and total borrowing is not a determining factor. As a result, when parents continue to borrow to stay ahead of pre-existing debt, the credit history continues to be acceptable for new borrowing, allowing some parents to accumulate PLUS loan debt over several years that far exceeds their ability to repay.

Currently, financial aid administrators are allowed to evaluate a borrower’s ability to repay a PLUS loan through debt-to-income measures. However, financial aid administrators have little loan underwriting expertise and are reluctant to use this authority. To ensure consistency, it would be more appropriate for ED, as the lender, to evaluate parental ability to repay using a debt-to-income ratio or similar standard as part of the credit review process already in place.

RECOMMENDATION #5: CREATE A UNIVERSAL LOAN PORTAL FOR STUDENTS

The task force recommends that Congress mandate the creation of a single web portal where students can easily access information about all of their student loans. This would allow all educational loans from the federal government, private lenders, and colleges and universities to be reported to one central database. The creation of such a resource could result from the expansion of the data collected by the National Student Loan Data System (NSLDS).

Borrower Stage Impacted

Pre-borrowing, in-school, and repayment

Rationale

Students need an accessible “one-stop shop” where they can manage their student loans. Many borrowers have multiple loans with different loan holders that may be in various stages of repayment. Having a central website where borrowers could access information about all of their loans would significantly help students as they manage their borrowing and repayment. Under such a scenario, all students would have access to their entire debt portfolio in real time, enabling them to calculate a more accurate monthly repayment amount based on a variety of potential circumstances.

It should be underscored that a central component of this recommendation is the need for students to have access to not only their federal loan information, but also their private loan information. It is critical that students be able to obtain and monitor *all* of their loan information in one central database, regardless of their loan’s origination, rather than having to pull information together in a piecemeal fashion. The latter creates opportunity for important information to fall through the cracks. Currently NSLDS only partially serves this purpose as it includes only some federal loans, and it does not include health professions loans made

through the Department of Health and Human Services (HHS), private loans, or institutional loans. A universal loan portal would capture all of these loans.

RECOMMENDATION #6: STANDARDIZE LOAN SERVICING POLICIES AND PROCEDURES

The task force recommends that ED standardize the process for placing a student into the various repayment plans, including acceptable documentation to be used by all servicers, the repayment start date, and the timing and method for capitalization of interest on federal student loans.

Borrower Stage Impacted

Repayment

Rationale

Our current Direct Loan program is one where students borrow directly from the federal government. The intent of the program was for students to have one lender and one servicer with standardized processes. However, the government is parceling out loans to various servicers and some borrowers are confused because not all servicers are handling standard issues in the same manner. Borrowers cannot choose or switch their loan servicer, so are subject to varying administrative procedures without any recourse. The lack of standardization also hinders financial aid administrators' efforts to accurately counsel students on what they can expect when they enter repayment. To alleviate confusion and differential treatment, the direct loan program should have a standardized repayment process, communications, and forms, regardless of the servicer.

RECOMMENDATION #7: INCORPORATE EXISTING ENTRANCE AND EXIT COUNSELING INTO THE DEPARTMENT OF EDUCATION'S FINANCIAL AWARENESS COUNSELING TOOL

The task force recommends that ED incorporate its web-based entrance and exit counseling into its [Financial Awareness Counseling Tool \(FACT\)](#).

Borrower Stage Impacted

Pre-borrowing, in-school, and repayment

Rationale

Statute requires institutions to provide student borrowers with entrance and exit loan counseling, composed of specific content. As long as the required content is provided, institutions have flexibility as to how the counseling is delivered. For example, institutions can provide the counseling in-person, through audiovisual means, or via other electronic means. Many institutions prefer web-based counseling because in-person counseling can be difficult to achieve from a practical standpoint, particularly at institutions with large student populations or distance learners.

Institutions often satisfy the loan counseling requirement by directing their students to ED's [web-based entrance and exit counseling](#). In fact, 71 percent of the 403 NASFAA members who responded to a recent unscientific straw poll by NASFAA indicated that they use ED's counseling.

Last year ED implemented FACT, an interactive, online counseling tool to help students and families navigate the financial aid system, manage their finances, and gain information on their obligation as a borrower. Although FACT does not provide entrance or exit counseling currently, it offers valuable resources related to the following topics:

- *Understanding loans:* Logged-in users can view their existing federal student loan debt based on NSLDS data. Users can enter additional loans that are not captured in NSLDS, such as private loans or health profession loans through the Department of Health and Human Services.
- *Budget management:* Users can take advantage of an in-school budgeting tool that compares living expenses with a user's current income.
- *Plan to repay:* Users are provided with a budgeting tool which compares living expenses with estimated income after leaving school and calculates the minimum monthly payment amounts for each of the basic repayment plans. Another feature allows users to see the effect of paying extra toward their loans to reduce overall debt and the amount of interest paid over time.
- *Avoid default:* Users learn how to postpone repayment or reduce monthly payments, if needed.
- *Make finances a priority:* Users can find out why developing a financial plan and making financial decisions is important.
- *Summary page:* A printable summary of the data used or entered.

FACT has been well received by NASFAA members and students as an innovative, comprehensive, and relevant tool. Expanding this tool to encompass entrance and exit counseling would be natural and fitting given the type of resources and information FACT offers.

RECOMMENDATION #8: REVISIT INSTITUTIONAL REQUIREMENTS FOR PRIVATE LENDER LISTS

Statutory and resulting regulatory provisions related to Preferred Lender Lists (PLL) could be streamlined to encourage more widespread use by schools without compromising their original purpose by taking the following steps:

- Review types of loans that should be classified as private education loans.
 - Exclude federal health professions loans from the definition of private education loans.
 - Eliminate state-sponsored loans that meet criteria acceptable to the U.S. Secretary of Education from the definition of private education loans.
 - Give the Secretary authority to determine, through regulation, whether institutional loans must be considered private education loans.
- Narrow the definition of a preferred lender arrangement to reduce the circumstances under which a PLL is required.
 - Allow institutions to give basic information about lender availability or display lender brochures as long as they do not actually recommend any particular lenders or products.

- Allow institutions to share summaries of previous students' experiences or satisfaction with lenders without considering that summary a preferred lender arrangement.
- Improve the efficiency of loan counseling requirements.
 - Eliminate duplicative loan counseling and disclosures, and broaden the method of making disclosures including the allowable sources of disclosure.
 - Replace lists of disclosures in the law with more general goals and objectives of disclosure, and direct the Secretary of Education to set specific disclosures through negotiated rulemaking.
 - Shift responsibility for disclosing terms and conditions of loans from school to lenders, and require Truth in Lending Act disclosures only of lenders.
- Eliminate duplication of information provided by the lender and the institution by requiring only the lender to describe the terms and conditions of the loans it offers and allowing the institution to direct students to the lender's materials or website for such information.
- Delete reporting requirements in favor of adherence to a code of conduct, disclosure to students and families of the criteria used to develop a preferred lender list, and assurance that borrowers may choose any lender without penalty, regardless of whether the lender appears on the list.
- Eliminate the model disclosure form provision (ED has not produced a model).
- Replace student self-certification with full school certification of private education loans.
- Streamline, clarify, and better align the PLL requirements of 34 CFR 601.10 (a)(2), HEA section 128(e), and HEA sec. 153.

Provisions in the current law and regulations that deal with code of conduct, disclosure of the criteria used to develop a preferred lender list, and assurances that families may also choose a lender not on the list, must be retained.

Borrower Stage Impacted

Pre-borrowing

Rationale

Institutions are not required to have a PLL. However, a school that chooses to publish a PLL is required by the Higher Education Opportunity Act (HEOA) to create and annually update that list with information on the listed lenders and loans, including:

- Terms and conditions of the loan;
- The reason the school entered into an arrangement with that particular lender;
- A student's ability to choose a lender that is not on the list; and
- The method and criteria used for selecting the lenders.

A private education loan PLL must also contain at least two unaffiliated lenders. Affiliations of any other lenders on the list must be disclosed and described.

With the elimination of FFELP, the rules applicable to private education loans can benefit from review and adjustment. The worst of the practices that gave rise to the current rules were limited to only a few institutions and related largely to FFELP, but a large unintended consequence of these rules prevents the entire financial aid community from giving reasonable advice to families who seek professional assistance from the student aid office.

Today, the financial aid community is well aware that institutions cannot gain any benefit from the business their students do with private lenders. Nevertheless, the PLL requirements inhibit their ability and willingness to recommend only those lenders who offer good rates and good service, or to share with current students their knowledge of past students' experiences. The result is that students often are swayed by marketing and advertisements. Institutions should be allowed to provide more useful and comparable information on private loans to students based on loan terms and conditions, the lender's history of service, and past students' experience without being tied to the litany of PLL rules.

In addition to removing impediments to responsible use of PLLs, the current private education loan application process should be revised to counter the impact of lender marketing. Replacing student self-certification with full school certification would give institutions the opportunity to ensure that students are aware of the benefits of federal loans before the student commits to a less favorable private loan.

CONCLUSION

Concern over student loan indebtedness is pervasive and growing. Taken together, these eight recommendations address shortcomings in the current student loan system at each level of borrowing: pre-borrowing, in-school, and repayment. They were each designed with the goal of achieving:

1. More informed borrowers;
2. More responsible borrowing;
3. Tools or frameworks for institutions to assist borrowers;
4. More borrowers successfully repaying their loans; and
5. Federal and institutional policies that reinforce all of the above.

In contrast to the recent loan program changes which arose strictly out of fiscal concerns, these recommendations are intended serve as starting points for meaningful policy discussions surrounding borrowing and student loan reform. Our hope is that these discussions will lead toward better designed loan programs that serve the needs of today's borrowers as they pursue their educational goals.

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