Helping Families Plan & Pay For College: Recommendations for Improving Higher Education Financing
April 2017
INTRODUCTION

Planning and paying for higher education is a complex and confusing process, especially for low- and middle-income families. Many families have little background or knowledge as to how best to finance their child’s educational goals and find themselves overwhelmed by the experience from start to finish. Many students and families are also concerned by the rhetoric surrounding the cost of higher education and student loan debt. Often, federal resources—which consist primarily of generic website content—are not enough. Families need more personalized and specialized guidance to successfully navigate and complete the process.

This white paper discusses how Education Finance Council (EFC) member organizations—nonprofit and state-based student loan organizations—serve as critical education funding resources while offering robust and innovative college access, counseling, and financial literacy programs. The paper also examines why EFC member organizations occupy a unique space in the broader higher education financing industry via a principles-based approach focused on the success of the borrower and their family.

Finally, this paper outlines a number of policy recommendations that EFC believes will improve the higher education financing experience for borrowers and will help nonprofit and state-based student loan organizations more effectively carry out their missions to help students and families in their states successfully plan and pay for college.

What do they do?

These organizations operate as loan issuers and servicers and provide extensive college outreach and financial literacy programs. Following the 2010 passage of the Student Aid and Fiscal Responsibility Act (SAFRA), nonprofit and state-based issuers reaffirmed their commitment to administering college access, counseling, and financial literacy programs and services and to carrying out their public-purpose missions. Some offer low-cost non-federal student loan programs and several participate in the Department of Education’s Direct Loan Program as federal loan servicers. EFC Members provide exemplary service to borrowers and the Department of Education.

What makes them unique?

Nonprofit and state-based student loan organizations, who are intimately involved with their communities, have the knowledge necessary to serve the unique needs of their communities and states, and work to ensure that all families—especially middle-income borrowers and first-generation or low-income students with no family experience in the intricacies of education financing—are provided the tools and guidance they need to choose the best-fit school, borrow appropriately, complete their degree, maximize their earning potential, and successfully repay their loans.

Their organizational missions to help families plan and pay for college are realized through their robust college access, counseling, and financial literacy programs, which are provided to students, families, and schools across the nation at no cost. Since EFC Members are driven by their nonprofit, public-purpose missions to help students succeed in postsecondary education, their interests are inherently aligned with the students and families they serve—not shareholders.

What are nonprofit and state-based student loan organizations?

Nonprofit and state-based student loan organizations are public-purpose entities that operate with the mission of increasing postsecondary access, affordability, and success. Collectively, they serve as critical resources for students and families in their states, assisting families with every facet of the higher education financing experience.
EXECUTIVE SUMMARY

Education Finance Council (EFC) is the national trade association representing nonprofit and state-based student loan organizations. All EFC Members, as public-purpose organizations, strive to increase college access, success, and affordability in their states and nationwide, operating as loan servicers and supplemental loan originators while providing a wide array of college access and student success services and resources.

In 2016, EFC Members directly worked with over 2.5 million families to help them successfully plan, save, and pay for college. And, during the 2015–16 fiscal year, nonprofit and state-based organizations helped over 76,000 students and their families close the gap in college funding with more than 87,000 loans totaling $1.1 billion. Collectively, their outstanding portfolios include 1.56 million in loans totaling $11.25 billion, representing more than 628,000 borrowers.

This paper highlights the services they provide and the impact they have on those they serve. It is within this context that EFC recommends the following policies to help students and families successfully plan, save, and pay for college. These recommendations are outlined in more detail starting on page 22.

PUT FAMILIES FIRST

• **Support nonprofit and state-based organizations’ college access, counseling, and financial literacy initiatives and explore ways to leverage the existing infrastructure of these organizations**—ensure continued funding for programs that have proven records of success in helping students and families make financially savvy decisions about higher education financing.

• **Continue the authorization of and provide funding for College Access Challenge Grants (and other grants) and make them available to state-based and nonprofit organizations**—these funds help ensure that these organizations can continue to offer their valuable college access, student success, and financial literacy programs.

• **Require the disclosure of annual percentage rates (APR) for federal student loans**—federal loans should be subject to the same disclosure requirements as private loans, ensuring transparency to borrowers regarding the true cost of all education loans.

• **Exempt federal and private education loans discharged due to death or total and permanent disability of a borrower from income tax on the amount discharged**—this common-sense and compassionate reform, modeled on current exemptions that public sector employees and borrowers with a closed-school discharge already receive, will help education loan borrowers and their families in times of great personal loss or debilitating injury.

• **Amend the Preferred Lender List statute to allow schools the ability to recommend to students and families loans offered through nonprofit and state-based organizations**—this change would remove barriers that currently inhibit colleges and universities from recommending low-cost loans offered by state-based and nonprofit organizations—especially in the case of loans that cost less than the Federal PLUS program—and would allow state-based and nonprofit organizations to offer free college financing workshops on campuses.
Recommendations for Improving Higher Education Financing

IMPROVE HIGHER EDUCATION FINANCING

• **Improve federal loan programs**—EFC recommends that Congress increase grant aid for at-risk, low-income, and first-generation students to minimize their need to borrow, especially in the first years of college. EFC is developing more detailed recommendations to improve federal grant and loan programs so as to ensure that federal resources are targeted to those who need them most.

• **Increase income protection and savings allowances**—increase the income protection allowance and savings allowance for students so as not to negatively impact financial aid awards for those students who work more to minimize and/or avoid borrowing.

• **Provide higher education institutions with authority to reduce loan limits for certain borrowers**—even if a borrower is eligible to borrow a certain amount from the federal loan program, it does not always make sense for them to do so. Providing institutions with the authority to further limit borrowing will help to minimize overborrowing.

• **Require all non-federal education loans to be certified by a higher education institution official**—requiring school certification will control overborrowing by ensuring that nobody borrows more than the cost of attendance less other aid from non-federal education loan programs.

IMPROVE THE REPAYMENT PROCESS

• **Reduce federal loan repayment options to three plans (standard, graduated, and income-based)**—streamline the repayment process to avoid borrower confusion and to ensure borrowers are enrolled in the plan that best fits their needs; this will also save the federal government money in the form of decreased administrative costs.

• **Combine existing forgiveness programs into a single program**—this minimizes borrower confusion and makes the process more navigable while saving the federal government money in the form of decreased administrative costs.

• **Require all income-driven repayment (IDR) programs to, at a minimum, cover the interest accruing on the loan balance to avoid negative amortization**—this ensures that borrowers don’t end up owing more even after making their minimum required payment.

• **Create a mechanism for borrowers to give the Education Department advance permission to automatically access their tax information for the limited purpose of determining eligibility for all IDR plans**—this would immediately help the 57 percent of borrowers who don’t renew their IDR plans on time and prevent them from experiencing skyrocketing monthly payments, capitalizing interest, potential overdrafts, and hardship status.

• **Allow all Federal Direct Loan servicers the ability to service consolidation loans, so that borrowers do not need to transition to a new servicer at this crucial point in the repayment process**—at any point when the repayment process is disrupted—especially with a change in servicers—there is the potential for missed payments; keeping a borrower with the same servicer ensures that they stay on track with their payments.
PRESERVE & EXPAND ACCESS TO LOW-COST ALTERNATIVE LOANS

- **Preserve Tax-Exempt Bond Financing (Private Activity Bonds) for Student Loans**—this keeps the interest rates low for education loan borrowers who need to access non-federal loans to pay for college or to refinance their education debt.

- **Eliminate the Alternative Minimum Tax (AMT) on income earned from Private Activity Bonds**—the savings from eliminating the AMT will be passed on to education loan borrowers in the form of an estimated 30-basis point decrease in interest rates.

- **Update Internal Revenue Code Section 150(d) to allow qualified scholarship funding corporations to access tax-exempt financing for alternative education loans and refinancing loans**—this will expand the states and organizations that can offer low-cost, non-federal loans using the proceeds of tax-exempt (private activity) bonds.

- **Through either regulation or legislation, clarify three technical tax issues to allow nonprofit and state-based organizations to fully implement valuable refinancing programs**—this clarification will greatly increase the number of borrowers who can refinance their education loan debt at a lower interest rate, saving some borrowers as much as $200-$300 a month.
HELPING STUDENTS & FAMILIES THROUGH OUTREACH PROGRAMS

KEY TAKEAWAYS

- As outlined in EFC’s Guiding Principles (see Exhibit A) nonprofit and state-based organizations serve as trusted guides, walking families through the maze of higher education options and offering free advisory services to millions of families nationwide.

- Nonprofit and state-based education loan organizations have hyper-local insight into the specific needs of their communities and states, allowing them to offer unparalleled services to the students and families they serve.

- Nonprofit and state-based student loan organizations are integral parts of the higher education infrastructure in their respective states.

- Nonprofit and state-based student loan organizations use any excess revenues, along with grant funds, to offer extensive free programs to help students and families in their states to select, apply for, and finance their educations.

- Most nonprofits and state-based organizations incorporate financial literacy portals and curriculum into regular borrower outreach, aiming to reduce student indebtedness by educating student borrowers and cosigners about responsible borrowing decisions.

- EFC recommends the federal government leverage the existing infrastructure of state-based nonprofit student loan organizations—who have proven records of success in operating as the go-to resources in their communities and states for saving, selecting, and paying for college and managing student loan debt—by supporting their current initiatives and expanding their reach.

Principles-Based Guidance

Nonprofit and state-based organizations offer and partner with organizations in their state that offer assistance and individual counseling on every facet of the higher education financing process through: college planning services, counseling on financial aid options and processes, assistance with understanding financial aid award letters, providing financial literacy education, administering millions of dollars in state grants and scholarships, and assisting borrowers and their families with managing loan repayment.

Several EFC member organizations have the distinction of reaching every—or nearly every—high school in their state. In New Hampshire, the NHHEAF Network Organizations reaches 100 percent of public high schools in New Hampshire. Utah Higher Education Assistance Authority works with all 42 school districts in the state of Utah and visits or provides resources to every high school in the state. Kentucky Higher Education Assistance Authority reaches students and families in each of Kentucky’s 120 counties, with KHEAA’s regional counselors visiting each high school a minimum of three times, each adult education center at least two times, and each middle school at least once.

Several EFC Members—in Kentucky, New Jersey, Massachusetts, Utah, Georgia, Minnesota, and Vermont—also administer their state’s tax-advantaged savings plans, commonly known as 529 plans. These plans encourage families—especially low- and middle-income ones—to save for future college costs. The earnings generated in a 529 plan are not subject to federal income taxes, allowing the investments to grow without being depleted annually by taxes. Additionally, when the money is used for qualified education expenses, the distributions from the 529 plan are not subject to federal or state income taxes. The withdrawals can qualify for the special tax treatment if the money is used for higher education expenses, including fees, tuition costs, books, some room and board expenses, and other required expenses.
In the past year, EFC Member nonprofit and state-based organizations:

- Granted over $655 million in scholarships
- Hosted programs at over 14,000 schools, community centers, libraries, and other sites
- Assisted 1 million students with their college applications
- Awarded $577 million in grant funds
- Assisting in the filing of more than 76,000 FAFSA s
- Hosted over 16,000 community presentations for students and parents surrounding college planning and financial aid
- Presented programs on financial literacy, budgeting, and college planning to over 520,000 high school students and their families
- Presented programs on financial literacy, budgeting, and college planning to over 50,000 elementary and middle school students and their families
- Provided financial literacy training and programs to over 57,000 students and families
- Distributed over 4.5 million brochures, fact sheets, guides, newsletters, and webinars
- Held over 2,300 counselor- and teacher-training workshops

INvestEd has become a vital resource for our seniors and parents that are transitioning to higher education. The presentations on financial aid, workshops to assist with filing, and individual advice have been a resource that our families have benefitted from. I feel confident that I am giving our families a trusted resource that will guide them during a stressful time.”

—Rhonda Murdock, Guidance Counselor, East Central High School, St. Leon, Indiana
Iowa Student Loan’s Iowa Financial Know-How Challenge: Senior Scholarship was extremely insightful to just how many expenses there really are in college. Tuition, room and board and supplies are just the beginning of a long and expensive road towards obtaining a college degree. Thanks in part to this scholarship, some of that financial burden will be lifted off of my shoulders in the long run.

—Ian Kubbe, Ottumwa High School, Ottumwa, Iowa

Unparalleled Local Insight

EFC Members work closely with and partner extensively with their respective state governments, communities, colleges and universities, local schools, and youth organizations. The relationships EFC Members maintain with education providers and policymakers in their states give them in-depth insight into the specific needs of students in their states. The federal government is unable to provide individualized guidance to families, providing instead generic, non-interactive web-based tools and resources that have proven to be largely ineffective. ¹ Nonprofit and state-based student loan organizations have on-the-ground insight into the specific needs of their local communities and states. As hyper-local entities, EFC member organizations are able to leverage federal resources to provide personalized services to the students, families, and borrowers they serve.

As a result, EFC member organizations have long-established networks that allow them to effectively meet the needs of the students and families they serve. One way to ensure that these organizations can continue to provide these services to students and families in their states is to continue and expand College Access Challenge Grants or other grant funding directly to state-based and nonprofit entities with the existing experience, expertise, and infrastructure to ensure they can continue to offer valuable counseling services.

Reach Higher Montana has helped me with my leadership skills, and helped me along the path to being a leader. Their A Step Ahead Summit has improved my confidence in college. The Foster Care All Stars program improved my public speaking skills and I am now more inclined to volunteer, do presentations, panels, etc. And, the All Stars provided me with an amazing opportunity to intern for Foster Club. I learned so much! I have been able to assist in empowering the youth that are currently growing up in foster care.”

—Issac Brito, Montana State University Student, Bozeman, Montana
The PLL has impaired state efforts to increase the percentage of our population who attend postsecondary education on a full-time basis. Since part-time attendance strongly correlates to non-completion, we have very low completion rates and have the highest percentage in the nation of adults with some college but no credential. The PLL created another substantial barrier preventing state organizations from working together to address this problem.”

—Alaska Student Loan Corporation

Reducing Barriers to Providing Comprehensive On-Campus Advisory Services

As evidenced above, nonprofit and state-based student loan organizations provide a spectrum of valuable resources for their states. However, a regulation known as the Preferred Lender List (PLL) rule has significantly hampered nonprofit and state-based student loan organizations’ ability to provide comprehensive advisory services to families in their states.

The 2008 reauthorization of the Higher Education Act codified that colleges and universities seeking to identify preferred lenders for private education loans must annually execute a global vetting process of the education lending sector. The result has been that schools, lacking the resources to deploy to this annual, time and resource-intensive process, forgo Preferred Lender Lists and consequently are denied related counseling for students and parents on sources of financial aid, including state-sponsored student loans.

In 2013, a bipartisan group of senators established a task force of college and university presidents and chancellors to study federal regulation of higher education and to identify potential improvements. The task force report, published in February 2015, concluded that PLL rules are "overly prescriptive and create barriers to providing information about non-Title IV loan programs with favorable terms for students." To amend this, the authors recommended "making necessary changes to allow institutions to share information about other federal and state loan programs with very favorable terms without having to overcome burdensome barriers.”

PLL requirements constrain schools from informing students about loans provided by Minnesota’s higher education agency. As a result, students often find themselves taking out higher price private loans to pay for their postsecondary education. What was designed to protect students has harmed many students.”

—Minnesota Office of Higher Education
EFC believes that Congress should modify the Preferred Lender List requirements to enable schools to provide students and families with information about the less costly and more flexible non-federal loans offered by nonprofit, state-based student loan organizations, without requiring schools to complete the onerous PLL process. This will improve consumer choice and transparency, and enable students and families to access information about all the loan options available to them. EFC also recommends that Congress or the Department of Education clarify that colleges and universities can and should once again avail themselves of the counseling services state-based and nonprofit student loan organizations were able to provide to students and families prior to the implementation of the PLL regulation.

Prior to 2008, MEFA provided comprehensive education financing advisory services to families attending colleges and universities in Massachusetts. By design, MEFA’s advisory services were available to families through colleges and universities across the Commonwealth resulting in informed consumers equipped to make wise decisions about financing higher education costs, most notably strategies for reducing borrowing levels. In face of PLL requirements, MEFA’s advisory services were disbanded and many families were forced to secure the necessary information and guidance on their own.”

—Massachusetts Educational Financing Authority
Helping Families Plan & Pay For College:

EFC MEMBER SPOTLIGHT: SERVING THE UNDERSERVED

Each year, Reach Higher Montana partners with the Montana Department of Public Health and Human Services (DPHHS) to connect foster youth with college. Through their free annual “A Step Ahead – Building a Path to Success” Summit, participants learn how to prepare for life after high school, whether that involves postsecondary education or joining the work force. Reach Higher Montana also administers Education and Training Vouchers on behalf of DPHHS to help foster youth attain higher education.

And, through a contract with the Montana Department of Public Health and Human Services, Reach Higher Montana runs “Montana Money Magic” to help qualifying low-income students improve their financial literacy and save for educational costs. Students who earn the maximum match receive $1,350 to help them gain access to higher education.

New Mexico Educational Assistance Foundation (NMEAF) serves its population—many first-generation and Spanish-speaking families—with special insight. NMEAF is a nonprofit who, in 34 years, has developed the state’s largest outreach program assisting Hispanics and Native American minorities—especially first-generation, low income families—to plan, prepare, and pay for college.

NMEAF, Albuquerque Public School District, and the University of New Mexico Unidos Project started College Connect NM, a collaborative that provides Hispanic families with information on college access and financial aid. College Connect NM partners, now totaling 25 collaborative nonprofits, expanded the collaborative statewide and assist families via their Train-the-Trainer program, providing training workshops for all high school and nonprofit staff on the completion of the FAFSA, and also assisting students with hands-on FAFSA completion workshops and college application completion.

Additionally, through their nmknowledge4college website, NMEAF has helped nearly 12,000 students with college planning and FAFSA filing, and has worked with Hispanic and Native American populations in 143 New Mexico High Schools (40 percent of which take place in rural New Mexico), 32 New Mexico Counties, and 173 New Mexico towns and cities.

In North Texas, inspirED provides counselor engagement activities focusing on the importance of motivation and inspiration on students, particularly for first-generation and immigrant students. These activities include documentary screenings and roundtables with authors and journalists. In 2017, inspirED is focusing on foster youth and resources for mental wellness and suicide prevention for college students.

inspirED also offers financial literacy workshops—in both English and Spanish. Across their 2015-16 sessions, participants across the board ranked the usefulness of the presentations 4.9 out of 5, with 99 percent of both English and Spanish-speaking attendees “strongly agreeing” that they would recommend that program to others.

Vermont Student Assistance Corporation (VSAC) partners with the DREAM Mentoring Program to provide mentoring support to elementary and middle school students who reside in public housing developments. Parents of these students are also provided support related to their child’s educational aspirations and career and college goals. VSAC’s new Aspiration Program, which focuses on high schools with demonstrated need, is designed to help a school and its students and families shift their aspirations, culture, and behavior over a three-year period. The program is customized to each school, depending on needs, culture, and capacity for community engagement.
EFC MEMBER SPOTLIGHT: GRANTS THAT GO A LONG WAY

**Pennsylvania Higher Education Assistance Agency** provided over 153,000 grants totaling $398 million in the most recent award year; over the life of its grant program, PHEAA has provided 6.8 million grants totaling $10.28 billion.

**New Jersey Higher Education Student Assistance Authority’s Tuition Aid Grant (TAG)**—which awards full-time undergraduate students enrolled in an approved degree or certificate program with up to $12,196—is one of the top two need-based programs in the country, according to the National Association of State Student Grant and Aid Programs. Nearly 1 in 3 New Jersey students attending college in state receives a TAG award. Overall, New Jersey HESAA has nearly $4.9 billion of assets under management and has made over $2.3 billion in distributions to pay for the costs of attending higher education, funds which in most cases would have otherwise been borrowed through student loans.

In 2016, **Vermont Student Assistance Corporation** provided Vermont students with 13,150 need-based state grants worth nearly $20 million, allowing 100 percent of the state funds to go directly to Vermont students. VSAC also administered more than 160 scholarships, disbursing 3,200 awards worth $5.9 million.

**Minnesota Office of Higher Education** administers the Minnesota State Grant Program—the state’s largest financial aid program; the program awards up to $180 million in need-based grants to Minnesota residents attending eligible colleges and universities.

EFC MEMBER SPOTLIGHT: EDUCATING STUDENTS & FAMILIES

In the 2015-16 academic year, **Kentucky Higher Education Assistance Authority** (KHEAA) held 7,000 financial aid and college planning presentations, hosted 782 exhibitions, and made 2,952 school visits—reaching 204,666 families.

Each year, KHEAA reaches students and families in each of Kentucky’s 120 counties, and KHEAA’s regional counselors visit each high school a minimum of three times, each adult education center at least two times, and each middle school at least once.

**The NHHEAF Network Organizations’** reach is impressive—through their Center for College Planning, they present six different programs to 100 percent of the public high schools in New Hampshire throughout the academic year. During the 2015-2016 academic year, The NHHEAF Network Organizations’ Center for College Planning hosted 289 presentations in public high schools.

NHHEAF also works with elementary and middle school students to give them a strong foundation in financial literacy and college planning; in the past year, NHHEAF hosted over 70 of these early-awareness programs, using an array of resources developed especially for younger students.
Rhode Island Student Loan Authority (RISLA) makes college planning convenient for families—their College Planning Center of Rhode Island (CPCRI), available at three locations across the state—includes a center in a shopping mall. CPCRI provides families with free, one-on-one counseling, assistance with preparing financial aid forms; comparing and under-standing financial aid award letters; searching for and applying for college; making a plan to fund college; and reviewing college application essays. In the 2015-16 academic year, CPCRI worked one-on-one with 6,800 individuals.

RISLA also provides free financial literacy seminars for both students and parents. In the past year, RISLA presented 68 sessions to over 3,000 participants on college campuses, in high schools, and at public libraries and nonprofit organizations. Since the program’s inception, RISLA has provided these free seminars to over 25,000 individuals. Each seminar is customized to fit the needs of its particular audience, and every participant receives a free financial planning tool kit.

In Indiana, INvestEd co-chairs the state’s College Goal Sunday, which is geared toward helping low-income and first-generation students plan for college and file their FAFSAs. During 2016 events, INvestEd worked individually with nearly 300 21st Century Scholars—Indiana’s low-income state grant recipients—and 331 first-generation students.

Overall, College Goal Sunday hosted 2,747 attendees, and College Go Week events alone reached nearly 1,000 students and helped over 300 individuals with college planning and FAFSA filing.

The Alaska Commission on Postsecondary Education (ACPE) provides extensive early-awareness programs to elementary and middle school students. ACPE hosts the “I Know I Can” program for second graders, where local alumni read an age-appropriate storybook introducing college and students draw a picture of who they want to be when they grow up on a postcard. The postcard is then mailed back to them two years later. In 2016, ACPE presented to over 3,000 students. For fifth graders, ACPE holds “Kids2College” programs, where students learn about the benefits of college along with college costs and financial aid. The programs include a curriculum piece, career panel of professionals sharing their own experiences with students, and culminates in a field trip to local campuses. This program also reached 3,000 individuals in 2016.

Additionally, ACPE, through a partnership with the Alaska Department of Labor and Workforce Development, provides an online career and education exploration and planning program called the Alaska Career Information System (AKCIS). AKCIS is offered free from middle school students to adults. AKCIS is the number-one online tool in the state for the development of personnel learning and career plans, with all 54 districts currently using AKCIS with their students.

Connecticut Higher Education Supplemental Loan Authority (CHESLA) developed, along with four other state agencies, CT Dollars & Sense—a financial literacy web portal that provides Connecticut students and their families with a “one-stop shop” resource to help plan, save, and pay for college.

CHESLA is also in the third year of its Need-Based Scholarship Program, which has been funded with $2 million annually. The program provides need-based college scholarships to Connecticut residents attending state or nonprofit degree-granting higher education institutions within the state. The awards provide students with additional assistance—other than loans—to finance their college education.
EFC MEMBER SPOTLIGHT: SERVING VETERANS

Utah Higher Education Assistance Authority helps our nation’s servicemembers achieve college success though their the Utah Veterans Tuition Gap Program, which enables post-9/11 military veterans to receive tuition assistance for the last school year at state higher education institutions if their federal education benefits have been exhausted before earning a bachelor’s degree.

Massachusetts Educational Financing Authority’s website hosts dedicated content about veterans’ benefits, including frequent informational and blog posts and an on-demand webinar, “Education Benefits for Veterans,” which is presented in collaboration with Heidrea for Heroes, a Massachusetts nonprofit dedicated to providing support services to military men and women upon their return to civilian life.

Iowa Student Loan supports active duty military and their family by offering the Iowa Student Loan Armed Forces Interest Reduction Program. Through the program, service members can get their interest rate reduced to 0.00 percent for up to 24 months on private student loans. Over 15 years, the program has helped 650 service members, providing $500,000 in interest reductions.
HELPING STUDENTS & FAMILIES THROUGH LOW-COST, CONSUMER-FRIENDLY ALTERNATIVE LOANS

KEY TAKEAWAYS

- As outlined in EFC’s Guiding Principles (see Exhibit A), nonprofit and state-based organizations offer low-cost loans with transparent terms. These organizations also provide the in-depth counseling that borrowers need to understand and manage their loan responsibilities and guide borrowers through all repayment options available to them—with special attention paid to working with borrowers who experience economic hardship.

- Nonprofit and state-based student loan organizations utilize tax-exempt bond financing (Private Activity Bonds) to provide low-cost education loan programs—both in-school and refinancing—to help students and families pay for college. As such, these organizations are uniquely qualified to make non-federal education loans with the best possible terms and to make education refinancing loans at low interest rates.

- It is critical to preserve the tax-exempt status of Private Activity Bonds, both to finance low-cost loan programs and to ensure continued funding for their extensive free outreach programs.

Nonprofit and state-based student loan organizations provide low-cost education loan programs to help students and families pay for the cost of attendance at colleges and universities across the nation. Utilizing the proceeds of tax-exempt bonds, these state-based and nonprofit lenders offer low interest rates, low or no origination fees, and lower monthly payments and lower total debt than many other education loan options, including the Federal Direct PLUS program. Nonprofit and state-based lenders integrate counseling as part of their loan program to ensure that borrowers are fully aware of the options available to them and only borrow what they need and can afford to repay.

Keeping Costs Low Through Tax-Exempt (Private Activity) Bond Financing

Currently, all nonprofit and state-based lenders offer a fixed interest rate option, which is, in many cases, less than five percent, with low or no origination fees. Some lenders also offer variable rate options. The majority of these loan programs require a credit-worthy borrower or co-signer, resulting in extremely low default rates (often less than one percent). Many programs also include borrower benefits, such as no prepayment penalties, interest rate reduction options, and some offer benefits for graduates that work in a critical field in the organization’s state.

EFC Member education loan programs—both in-school and refinancing—also cater to families and borrowers that most private loan organizations will not serve. Across programs with credit requirements, the eligible credit scores in some states can be as low as 620 with a co-signer.

During the 2015-16 fiscal year, nonprofit and state-based organizations made more than 87,000 loans to more than 76,000 borrowers, totaling $1.1 billion. Collectively, their outstanding portfolios include 1.56 million in loans totaling $11.25 billion, representing more than 628,000 borrowers.

The Internal Revenue Code (IRC) rules that allow these organizations to use the proceeds of Private Activity Bonds to fund education loans require that the yield on these education loans be no greater than the yield on the bonds plus two percent. Nonprofit and state-based student loan organizations use any excess revenues, along with grant funds, to offer extensive free programs to help students select, apply for, and finance their educations.

As Congress works to reform the tax code, EFC strongly recommends that Congress safeguard the existing tax exemption for Private Activity Bond interest, which has been in place for over 100 years.

Repealing the tax exemption would dramatically increase the cost of nonprofit and state-based education loans, adversely affecting middle-
income families, who already bear the burden of $1.3 trillion in student loan debt.

In addition, certain nonprofit and state student loan funding providers—“qualified scholarship funding corporations” under Section 150(d) of the Internal Revenue Code (IRC)—are currently ineligible to issue tax-exempt bonds to finance alternative student loans and refinance education loans.

Section 150(d) allows only qualified scholarship funding corporations to use tax-exempt financing to acquire education loans incurred under the HEA, which was the Federal Family Education Loan Program (FFELP). EFC recommends that an update be made to the IRC to allow qualified scholarship funding corporations to access tax-exempt financing for alternative education loans and refinancing loans for the residents of their states.

If this update were to be made, these organizations would be better able to offer in-school loans that would be highly competitive with, and often lower than, the Federal PLUS Loan. For example, in Texas, there are approximately $620 million new, high-cost Federal PLUS loans originated each year, according to the U.S. Department of Education. Based upon standard FICO distributions, it is estimated that at least $310 million (approximately half) of these loans each year could save money by taking out an alternative education loan instead of the Federal PLUS Loan.

In addition, the Federal Direct Loan program does not account for the maturation of borrowers as they strengthen their credit profile during the advancement of their career. On a national basis, recent analysis by Goldman Sachs found that over 8 million existing student loan borrowers totaling over $240 billion could benefit from refinancing. For example, in Texas, an estimated $14 billion of existing student loans could benefit from refinancing with an alternative education loan.

EFC strongly supports H.R.480, the Student Loan Opportunity Act, introduced by Rep. Bill Flores (R-TX), which would amend section 150(d) of the IRC to allow qualified scholarship funding corporations to access tax-exempt financing for alternative in-school and refinancing education loans.

Additionally, EFC supports proposals to eliminate the Alternative Minimum Tax (AMT) to further drive down costs for middle-income families. Congress’ previous temporary elimination of the AMT on income earned from Private Activity Bonds resulted in lower borrowing rates for student loan issuers, with those savings passed directly to student loan borrowers.

For example, a student borrowing $20,000 could save $500 or more in lower interest payments on a ten-year loan with the elimination of the AMT.

**Increasing Consumer Choice and Transparency**

When PLUS Loans are automatically included in student’s financial aid award letters, it can lead students and families to take out a loan without considering alternatives, lower cost options or, in some instances, understanding they have taken out a loan.

Contrary to popular belief, nonprofit and state-based lenders offer rates that are highly competitive. The Federal PLUS Loan program offers the same interest rate (currently 6.31 percent) and origination fee (currently 4.276 percent) for all borrowers, regardless of their credit. EFC Members offer education loans, that have, in many cases, lower interest rates and lower or no origination fees, resulting in lower monthly payments and lower total debt than Federal Direct PLUS Loan.

For example, families who take out a Vermont Student Assistance Corporation (VSAC) Vermont Advantage Loan, with immediate repayment, can save an average $2,500 over ten years on a $10,000 loan, compared to if they had taken out a PLUS loan. Families that utilize a Utah Higher Education Assistance Authority (UHEAA) Complete Student Loan can see an average savings of $1,100 over ten years on a $10,000 loan, compared to a PLUS Loan.
Furthermore, loans made by nonprofit and state-based lenders are subject to an extensive array of existing consumer protection laws, including the Truth-in-Lending Act. Loans made under the Federal Direct PLUS program, along with Federal Direct Stafford Loans and Federal Direct Consolidation Loans, are not subject to the Truth-in-Lending Act, which requires the disclosure of annual percentage rate (APR), which factors in both interest rate and loan fees as part of the cost of a consumer loan. Without an APR on the Federal Direct PLUS loan, consumers are not able to easily compare the total cost of the PLUS loan to other loans, including those made by nonprofit and state-based lenders.

In order to improve consumer choice and transparency, and to enable students and families to access information about all the loan options available to them, EFC recommends that Congress require the federal loan program to provide disclosures, including an Annual Percentage Rate (APR) on all federal loans, similar to what is required of non-federal education loans. And, in the case where state-based and nonprofit loans have lower APRs than the PLUS program, they should be included in the financial aid award package instead of the PLUS loan.

**Lower Costs Through Refinancing**

On a national basis, recent analysis by Goldman Sachs\(^2\) found that over 8 million existing student loan borrowers totaling over $240 billion could benefit from refinancing. Many EFC Members now offer or are planning to offer education loan refinancing programs that will help borrowers to better manage their student loan debt.

Thirteen EFC Member organizations now have active education refinancing loans, making education debt more manageable for families by providing a refinancing tool that consolidates high-interest rate education loans into a single loan—reducing overall debt burden and in many cases, reducing monthly payments by as much as $200 or $300 per month—saving anywhere from $3,000 to $5,000 over a ten-year repayment term.

Overall, many of these refinancing programs offer fixed-interest rate loans that are less than five percent. EFC Member programs do not have any additional program fees (such as origination, administrative, or guarantee). A number of state-based and nonprofit organizations also offer a variable rate option on their refinancing loan program, as well as 5, 10, or 15 year terms—giving the borrower the option to select the program that best meets their needs.

EFC Member refinancing programs cater to borrowers with credit scores as low as 650 and annual incomes as low as $35,000.

Unfortunately, three minor technical issues exist that are preventing state and nonprofit organizations from fully implementing these programs using the proceeds of tax-exempt (private activity) bonds.

To fix these issues and allow more borrowers to lower their loan costs, EFC recommends that the Treasury Department provide greater clarification following U.S. Treasury Notice 2015–78, which clarified that nonprofit and state-based student loan organizations could issue tax-exempt bonds to fund education refinancing loans. The 2015 guidance left three open issues that are limiting the ability of nonprofit and state-based organizations to fully implement this guidance and are, as a result, limiting their ability to make refinancing loans available to the greatest number of education loan borrowers.

Further clarification is needed to clarify that (1) refinancing loans made under a prior tax-exempt bond do not trigger an advanced refunding particularly where the issuer is utilizing a new volume cap allocation to issue the bonds that will refinance the original loans; (2) private education loans may be refinanced, even if there is no certification that the loans, when originally made, did not exceed cost of education less other aid; and (3) parents can refinance loans taken out by their child/student to cover their education expenses and a child/student can refinance loans their parents took out for the child’s education.
Comparing Interest and Fees on a $10,000 Loan on a 10-Year Repayment Plan

- **2016–17 Direct PLUS Loan**: $3,359.00
- **EFC Member A**: $3,166.32
- **EFC Member B**: $2,863.20
- **EFC Member C**: $2,610.87
- **EFC Member D**: $2,143.71

- **Interest**: $447.00
- **Additional Fees**: $0.00

*Includes a 0.25 percent automatic payment interest rate reduction for the Federal Direct PLUS Loan and EFC Members A, B, and D*
This additional guidance from the Treasury Department would enable borrowers, especially those with high-interest private education loans, to refinance their debt at significantly lower rates and make their student debt burden manageable.

CONCLUSION

As evidenced above, EFC Members offer a variety of robust and successful programs and services to students and families in their states, including scholarship and grant programs, financial aid and default prevention counseling, extensive college planning and financial literacy programs, and affordable student loans and refinancing loans.

Through these programs, EFC Members ensure that all students—including first-generation and students from low- and middle-income families, many of whom have no family experience in the intricacies of education financing—are provided the tools and guidance they need to choose the best school, borrow appropriately, complete their degree, and successfully repay any education loan debt.

Refi CT has helped me by lowering my interest rates by about two percent, and that leaves me with more money every month in my pocket to help me and my ventures since graduation.

—Caitlin Connolly, UConn Graduate
EFC MEMBER SPOTLIGHT: EDUCATING BORROWERS

To help students succeed and fund any gaps in their educational costs, Georgia Student Finance Authority (GSFA) offers a state-funded loan program with a one percent interest rate and no credit or cosigner requirements, helping more than 16,000 students fund their education. Seventy-seven percent of loan recipients are eligible to receive federal Pell Grants. The program requires students to submit “Keep in Touch” payments of $10 per month, with the goal of keeping students engaged in their finances and to establish early, positive borrower repayment behavior.

A key feature of Iowa Student Loan’s (ISL) education loan program is the Student Loan Game Plan (SM). Since 2010, Student Loan Game Plan has helped students and borrowers understand the effects of excessive borrowing and helped them to make a plan to reduce student loan debt. This online learning experience is targeted specifically to educate students, who are entering and attending college, and their parents/cosigners, and allows students to develop a personalized plan to immediately reduce expenses and encourages responsible borrowing of student loans.

ISL requires all loan applicants and cosigners to complete the interactive tutorial during the application process, and more than 3,400 individuals accessed the Student Loan Game Plan. Ninety-three percent of applicants indicated that use of the tool increased their knowledge of the impact borrowing would have on their financial future. Use of the tool also lead to a $3,444 average reduction in the loan amount requested upon completion of the tool.

The Student Loan Game Plan, along with a suite of interactive, personalizeable online financial literacy tools, is also available online to help families understand responsible borrowing and decisions about funding college. In 2016, nearly 9,000 individuals accessed one or more of these tools.

Kentucky Higher Education Student Loan Corporation (KHESLC) offers families two fixed rate loan options to fund their education: the Advantage Education Loan and the Advantage Parent Loan.

Their loans feature interest rates as low as 4.95 percent, zero fees, and flexible repayment options: Immediate Repayment–Principal Plus Interest; Immediate Repayment–Interest Only; and Postponed Repayment. Similar to federal loan programs, both loans offer a six-month grace period allowed for borrowers who choose the Immediate Repayment–Interest Only or Postponed Repayment option.
EFC MEMBER SPOTLIGHT: MEETING THEIR STATES’ UNIQUE NEEDS

Many EFC Member loan programs offer loans, rewards, and benefits aimed to fill professional gaps in their state. South Carolina Student Loan Corporation created the SC Teachers Loan to entice talented and qualified students to the teaching profession. Students can borrow up to $20,000 for their education and have their loan cancelled in five years if they teach a critical subject or in a critical geographic area.

Rhode Island Student Loan Authority (RISLA) offers a variety of reward programs and benefits for borrowers, including its Nursing Reward Program, which offers zero interest for 48 months of loan repayment to qualified borrowers who have a RISLA fixed rate loan and are employed by a licensed health care facility in Rhode Island and work a minimum of 20 hours per week with a responsibility of direct patient care.

While interest forgiveness is in effect, a borrower’s entire payment is applied to principal, reducing the monthly payment amount. This payment reduction eases the financial burden faced after graduation and offers the opportunity for new nurses to provide Rhode Islanders with the top-notch medical care they deserve. RISLA also provides $2,000 in loan forgiveness for qualifying internships.

RISLA maintains a website (bridge.jobs) dedicated to matching Rhode Island employers with talented interns. Similarly, Utah Higher Education Assistance Authority (UHEAA) provides a Utah Scholarship database, and partner that with the UtahFutures.org consortium group, which offers job shadowing and internship opportunities in conjunction with scholarship resources.

EFC MEMBER SPOTLIGHT: REFINANCING PROGRAMS

Massachusetts Educational Financing Authority (MEFA) began issuing refinancing loans in early 2016, offering fixed interest rates as low as 4.95 percent. Already, they have been able to help nearly a thousand borrowers refinance their education loans, who have seen, on average, a 29 percent reduction in their monthly payments.

Rhode Island Student Loan Authority’s (RISLA) program has been active for nearly a year and a half, offering fixed interest rates as low as 3.94 percent. Their typical borrower has been repaying their loans for two years and is looking to reduce their monthly payment or interest rate and better manage their student loan payments by consolidating into one loan and one monthly payment. On average, borrowers see a $3,480 savings on a ten year loan.

Additionally, RISLA encourages investment in the state by refinancing borrowers with a state resident interest rate benefit (0.25 percent interest rate reduction) and the pursuit of higher education with a professional degree interest rate benefit (0.25 percent interest rate reduction).
Connecticut Higher Education Supplemental Loan Authority’s (CHESLA) program, Refi CT, launched in June 2016, fixed interest rates as low as 4.75 percent. CHESLA has found that many of the borrowers refinancing through their program are graduate students looking to refinance undergraduate loans, so they are not stuck paying higher rates they cannot afford.

Many CHESLA borrowers are also taking advantage of the option for children to take on full responsibility of their parents’ PLUS Loans.

CHESLA has found that, in many cases, parents will take out loans on behalf of their students with a “handshake agreement,” that the student will be responsible for paying back the loan. However, if for any reason the student is not able to make a payment, their parents are financially liable. Utilizing the CHESLA program, many families are able to reorganize their debt so that they do not need to rely on such agreements.

The NHHEAF Network Organizations’ EDvestinU® Consolidation Loan, launched in 2014, was created to provide a nonprofit option for borrowers seeking support in repaying their federal and private loans more affordably and with greater ease. Borrowers may select a fixed or variable rate loan, with APRs ranging from 2.72 percent to 7.54 percent when combined with an autopay discount of 0.25 percent. Repayment terms of 5, 10, 15 and 20 years are available. Borrowers also benefit from loan servicing from a nationally recognized nonprofit provider with 24/7 online account access and expert loan counseling from application to final payment.

EFC MEMBER SPOTLIGHT: HELPING DISTRESSED BORROWERS

Kentucky Higher Education Assistance Authority (KHEAA) has developed cohort default management services. KHEAA contracts with colleges to provide cohort default management services focused on default prevention, early intervention during the borrower’s grace period and transition services. While students are in college, services focus on financial literacy and college survival skills, encouraging retention.

As a guarantor, KHEAA also provides information to borrowers on their repayment options and obligations. At the close of 2016, KHEAA was working with 25 schools and counseling more than 60,000 students in repayment across the three active cohort periods. 68.5 percent of these students had experienced delinquency at least once and KHEAA was able to resolve more than 70 percent of these delinquency cases.

Arkansas Student Loan Authority provides default management services to higher education institutions in Arkansas, assisting colleges and universities in lowering their student loan default rate.
POLICY RECOMMENDATIONS

Given EFC member organizations’ broad and extensive experience and expertise in helping students and families successfully finance their higher education goals, EFC is providing the following list of policy recommendations for the benefit of students and families nationwide:

PUT FAMILIES FIRST

*Federal Support of College Access, Student Success, and Financial Literacy Outreach Programs.* Collectively, EFC Members offer a variety of robust and successful programs and services to students and families in their states, including scholarship and grant programs, financial aid and default prevention counseling, and extensive college planning and financial literacy programs and affordable education and refinancing loans. In 2016, EFC Members provided over 2.5 million individuals the resources needed to successfully plan, save, and pay for college.

**Recommendation:** EFC recommends the federal government support these initiatives and explore ways to leverage the existing infrastructure of state-based nonprofit student loan organizations, who have proven records of success in operating as the go-to sources in their communities and states for saving, selecting, and paying for college and managing student loan debt.

Specifically, EFC recommends that the federal government provide nonprofit and state-based organizations the resources (such as College Access Challenge Grants) to continue to offer and expand their services to an even greater number of students and families—including through the development of tools to help colleges better counsel their students. One such tool would allow students to project their debt-to-income ratio based on the average starting salary for the student’s field of study; this would inform students about the dangers of borrowing more than they can afford to repay.

*Stop Taxing Death & Disability.* EFC strongly supports efforts to exempt from federal income tax private and federal education loans that are discharged due to the death or total and permanent disability of a student, and to allow the parent of a student that becomes totally and permanently disabled to have their federal loan discharged.

Adding federal and private student loan discharges as a result of death or total and permanent disability to the existing list of tax-exempt discharges is a common-sense and compassionate reform, modeled on current exemptions that public sector employees and borrowers with a closed-school discharge already receive.

**Recommendation:** Exempt federal and private education loans discharged due to death or total and permanent disability of a borrower from income tax on the amount discharged.

EFC supports the bipartisan, bicameral Stop Taxing Death and Disability Act.

*Require the Disclosure of APR for Federal Student Loans.* EFC is strongly in favor of requiring the disclosure of annual percentage rates (APR) for federal student loans. The federal government is currently not subject to the same disclosure requirements as private lenders, and, as a result, consumers are often unaware of the total expense associated with a federal student loan, including origination fees and the potential effects of defer-ment, forbearance, and interest capitalization on the total cost of their loan.

**Recommendation:** EFC strongly supports efforts to amend the Higher Education Act to require the disclosure of annual percentage rates (APR) applicable to federal student loans. The federal government, as the originator of more than 90 percent of all education loans in the nation, should be required to provide a more complete picture of the costs of these loans so students and families can make fully informed higher education financing decisions. EFC endorses the bipartisan, bicameral Transparency In Student Lending Act.

*Prevent Overborrowing.* In order to limit overborrowing, EFC supports providing higher education
Recommendations for Improving Higher Education Financing

institutions with authority to reduce loan limits for certain borrowers; even if a borrower is eligible to borrow a certain amount from the federal loan program, it does not always make sense for them to do so. Providing institutions with the authority to further limit borrowing will help to minimize overborrowing. Additionally, EFC supports requiring all non-federal education loans to be certified by a higher education institution official. Requiring school certification will control overborrowing by ensuring that nobody borrows more than the cost of attendance less other aid from non-federal education loan programs.

Recommendation: Provide higher education institutions with authority to reduce loan limits for certain borrowers and require all non-federal education loans to be certified by a higher education institution official.

IMPROVE THE FINANCING PROCESS

Improve Federal Grant and Loan Programs. EFC recommends that Congress increase grant aid for at-risk, low-income, and first-generation students so as to minimize their need to borrow, especially in the first years of college.

Recommendation: EFC is developing more detailed recommendations to improve federal grant and loan programs so as to ensure that federal resources are targeted to those who need them most.

Increase Income Protection and Savings Allowances. The expected family contribution (EFC) is the amount of money that a family is expected to contribute toward the price of a student’s education from its income and assets. The EFC consists of two parts: the parent contribution and the student contribution. Generally, “family contribution” refers to both of these combined. For independent students, there is no parent contribution.

To determine the amount of income available for educational purposes, both parents and students are given “offsets” against income. Offsets include taxes, employment expenses, and an income protection allowance. For parents and independent students with dependents, the income protection allowance can range from approximately $17,000 to $53,000, based on family size and number of family members enrolled in college. After subtracting the offsets from total income, the remaining income is called available income. For parents and independent students with dependents, the available assets are added to the available income to arrive at the adjusted available income. A portion of this amount is multiplied by 22 to 47 percent (plus a additional pre-determined assessment) to arrive at the total expected family contribution.

Recommendation: Increase the income protection allowance and savings allowance for students so as not to negatively impact financial aid awards for those students who work more to minimize and/or avoid borrowing.

IMPROVE THE REPAYMENT PROCESS

Simplify Repayment and Forgiveness Programs. Borrower advocacy is an important concept among EFC member organizations. Through their work counseling borrowers throughout all stages of the education financing process—from when they first begin researching loan options until they successfully make their last payment—EFC Members know first-hand that the current repayment process and forgiveness options are far too complex for even the most well-informed borrower (see Exhibit B).

Recommendation: To improve outcomes and the borrower experience, Congress should reduce repayment options to three plans (standard, graduated, and income-based) and combine existing forgiveness programs into a single program.

Improve Income-Driven Repayment. In order to safeguard borrowers from negative amortization, EFC recommends that Congress require IDR programs to, at minimum, cover the interest accruing on a loan balance. EFC also recommends that Department of Education (ED) and the Treasury Department (Treasury) allow student loan borrowers to give ED advance permission to automatically access their tax information for the limited purpose of determining eligibility and/or monthly payment
Helping Families Plan & Pay For College

amounts for all IDR plans—often referred to as "multi-year consent"—rather than requiring borrowers to proactively submit updated income information every year. EFC urges ED and Treasury to quickly implement multi-year consent per their January 2016 Memorandum of Understanding.

**Recommendation:** Require IDR programs to, at a minimum, cover the monthly accrued interest on a loan balance to avoid negative amortization and create a mechanism for borrowers to give ED advance permission to automatically access their tax information for the limited purpose of determining eligibility for all IDR plans.

**Allow All Direct Loan Servicers to Service Consolidation Loans.** Currently, borrowers who choose to consolidate their Federal Direct Student Loans are limited in their choice of servicer to the four TIVA servicers. As a result, when a borrower who is working with one of the six not-for-profit servicers consolidates their loans, the servicing must be transferred to one of the four TIVA servicers. If a borrower is proactively engaging with their servicer and consolidating their loan, they should not be forced out of that existing, positive relationship. Allowing borrowers to choose the servicer that works best for their individual needs would decrease the overall anxiety of the repayment process and foster positive, standing relationships between borrowers and servicers.

**Recommendation:** EFC recommends that borrowers be allowed to remain with their not-for-profit servicer when consolidating their loans so that they do not need to transition to a new servicer at this crucial point in the repayment process.

**Preserve & Expand Access to Low-Cost Alternative Loans**

**Preserve Tax-Exempt Bond Financing (Private Activity Bonds) for Student Loans.** Many middle-income families require financing beyond the federal student loan program. Nonprofit and state-based student loan funding providers have the unique ability to utilize tax-exempt bond financing—in the form of private activity bonds—to offer lower borrowing costs to students and families. There are currently 19 nonprofit or state-based organizations, many of whom issue qualified student loan bonds to offer alternative education loan programs to help cover the cost of higher education—funding the gap between federal loans, grants, and scholarships and the total cost of attendance.

During their 2015-16 fiscal year, these organizations made more than 87,000 loans to more than 76,000 borrowers, totaling $1.1 billion. Collectively, their outstanding portfolios include 1.56 million in loans totaling $11.25 billion, representing more than 628,000 borrowers. Repealing the tax exemption would dramatically increase the cost of these education loans, adversely affecting middle-income students and families, who already bear the burden of $1.3 trillion in student loan debt.

**Recommendation:** Continue the tax exemption for private activity bonds used to fund education and refinancing loans.

**Modify Preferred Lender List Statute.** The Higher Education Act of 1965 (HEA) requires post-secondary institutions to follow onerous procedures before they can provide information or guidance to students and parents on non-federal loan options. However, due to competing administrative needs, few postsecondary institutions have allocated the time and resources to complete the process. Nonprofit and state-based student loan organizations offer loans utilizing state funding or tax-exempt bond financing, which in many cases enables the organizations to offer loans at lower costs than other programs. If schools do not create a Preferred Lender List, school personnel are restricted from advising students on non-federal loan options, including nonprofit and state-based student loans that are less costly than other programs.

**Recommendation:** Amend the PLL statute to allow schools the ability to recommend to students and families loans offered through nonprofit and state-based organizations, without the onerous procedures.
Recommendations for Improving Higher Education Financing

Eliminate the Alternative Minimum Tax (AMT). EFC supports the proposed elimination of the AMT, which would minimize costs to education loan borrowers. Congress’ previous temporary elimination of the AMT on income earned from Private Activity Bonds resulted in lower borrowing rates for student loan issuers, with those savings passed directly to student loan borrowers. For example, a student borrowing $20,000 could save $500 or more in lower interest payments on a ten-year loan with the elimination of the AMT.

Recommendation: Eliminate the Alternative Minimum Tax on income earned from Private Activity Bonds.

Expand Education Loan Refinancing Opportunities. Guidance on Qualified Student Loan Bonds provided by the U.S. Treasury in November 2015 (Notice 2015-78) clarified that nonprofit and state-based student loan organizations could issue tax-exempt bonds to fund education refinancing loans.

However, the 2015 guidance left three open issues that are limiting the ability of nonprofit and state-based organizations to fully implement this guidance and are, as a result, limiting their ability to make refinancing loans available to the greatest number of education loan borrowers.

Further clarification is needed to clarify that (1) refinancing loans made under a prior tax-exempt bond do not trigger an advanced refunding particularly where the issuer is utilizing a new volume cap allocation to issue the bonds that will refinance the original loans; (2) private education loans may be refinanced, even if there is no certification that the loans, when originally made, did not exceed cost of education less other aid; and (3) parents can refinance loans taken out by their child/student to cover their education expenses and a child/student can refinance loans their parents took out for their child’s education. Addressing these three issues would greatly expand the ability of state-based, nonprofit issuers to make refinancing loans available to education loan borrowers in their states.

Recommendation: Through either regulation or legislation, clarify three technical tax issues to allow nonprofit and state-based organizations to fully implement valuable refinancing programs.

Update “Qualified Scholarship Funding Corporation” Rules. As noted above, nonprofit and state-based education loan funding providers, with their access to tax-exempt financing, are uniquely qualified to make alternative loans with the best possible terms and to make education refinancing loans at low interest rates. However, certain nonprofit and state student loan funding providers—“qualified scholarship funding corporations” under Section 150(d) of the Internal Revenue Code—are currently ineligible to issue tax-exempt bonds to finance alternative student loans and refinance education loans.

Section 150(d) allows only qualified scholarship funding corporations to use tax-exempt financing to acquire education loans incurred under the HEA, which was the Federal Family Education Loan Program (FFELP). An update is needed to the Internal Revenue Code to allow qualified scholarship funding corporations to access tax-exempt financing for alternative education loans and refinancing loans.

In January 2017, Rep. Bill Flores introduced H.R.480, the Student Loan Opportunity Act, which would allow qualified scholarship funding corporations to access tax-exempt financing to fund alternative private student loans for students attending school and provide low-cost refinancing loans to borrowers once they leave school.

Recommendation: EFC encourages Congress to support and cosponsor H.R.480, the Student Loan Opportunity Act, introduced by Rep. Bill Flores (R-TX), which would amend section 150(d) of the IRC to allow qualified scholarship funding corporations to access tax-exempt financing for alternative private student loans.
ENDNOTES


2. Chris Fernandez with Carla Fletcher, Kasey Klepfer, and Jeff Webster, TG Research and Analytics, “A Time to Every Purpose: Understanding and Improving the Borrower Experience with Online Student Loan Entrance Counseling, 2015,” available at: http://www.tgslc.org/pdf/Time-to-Every-Purpose.pdf


GUIDING PRINCIPLES FOR NONPROFIT, STATE-BASED, & STATE-CHARTERED ORGANIZATIONS WHO MAKE EDUCATION LOANS

This document serves as a guiding statement for nonprofit, state-based, and state-chartered organizations who make loans to cover educational expenses, outlining general principles which promote borrower success. A state-based education loan program is defined as an education loan program that is provided by a state agency, state authority, or nonprofit organization, separately, or jointly; makes loans not funded, insured, or guaranteed by the federal government; and is authorized, established, or chartered by state statute or otherwise approved by the state. Through the application of these guiding principles, borrowers will be able to expect a high level of accountability from nonprofit, state-based, and state-chartered organizations who make education loans, including timely and accurate responses to inquiries and complaints.

ADVISORY & OUTREACH PROGRAMS

Nonprofit, state-based, and state-chartered organizations who make education loans should serve as trusted guides, walking families through the maze of higher education options and offering free advisory services. To this end, nonprofit, state-based, and state-chartered organizations who make education loans should:

- Offer and/or partner with organizations in their state that offer FAFSA completion assistance and information on financial aid options and processes, including assistance with understanding financial aid award letters.
- Provide financial literacy education, which may include information about projected salaries and return on investment for specific degree programs.
- Assist borrowers and their families with managing the repayment of any loans taken out through the nonprofit, state-based, or state-chartered organization; this assistance should be provided within the context of all education debt held by the borrower and their family.
- Provide and/or partner with organizations in their state that provide services and specific outreach programs for minority and underserved populations.

ENCOURAGE SMART & RESPONSIBLE BORROWING

Nonprofit, state-based, and state-chartered education loan organizations should encourage families to make the best possible decisions for their individual circumstances. To this end, nonprofit, state-based, and state-chartered organizations who make education loans should:

- Encourage students to exhaust their Federal Direct Subsidized Stafford Loans and Federal Direct Unsubsidized Stafford Loans, grant aid, and family resources before taking out any other type of loan.
- Require that schools certify the enrollment, cost of education, and financial aid of each borrower in order to avoid unintentional over-borrowing. School certification acts as a check that the loan is being used for an educational purpose and that the amount borrowed is in line with the college’s costs and the borrower’s needs.
- Advise students and families to borrow only the amount they need. Selecting and paying for college is a family decision and, as such, the student and family need to understand the total cost of the college selected. Family members borrowing on behalf of a student or cosigning a student loan should be counseled to understand their rights and responsibilities in regards to repaying education loan debt.
AFFORDABLE LOAN TERMS & REPAYMENT OPTIONS
Nonprofit, state-based, and state-chartered education loan organizations should offer low-cost loans with transparent terms. These organizations should provide the in-depth counseling that borrowers need in order to understand and manage their loan responsibilities. These organizations should also guide borrowers through all repayment options available to them, with special attention paid to working with borrowers who experience economic hardship. To this end, nonprofit, state-based, and state-chartered organizations who make education loans should:

- Offer a low interest rate loan, including a fixed rate option, with low or no origination fee.
- Prominently disclose the annual percentage rate, financing costs, total cost of the loan, and other terms and benefits to the borrower prior to loan origination.
- Offer one or more flexible repayment options to meet the needs of families’ varying financial situations. This may include grace periods, deferment, forbearance, temporary reduced payment plans, in-school interest-only payments, immediate repayment, refinancing options, or varying repayment term options.
- Proactively communicate with borrowers and cosigners to inform them of their rights, responsibilities, and repayment options.
- Develop a policy for advising their borrowers who may be impacted by a school closure.
- Explore partnership opportunities to assist borrowers in paying down their education loan debt.

HELP FOR BORROWERS IN DISTRESS
Nonprofit, state-based, and state-chartered education loan organizations should work closely with borrowers experiencing personal hardship or financial difficulties to offer guidance and assistance. To this end, nonprofit, state-based, and state-chartered organizations who make education loans should:

- Whenever possible, work with individual borrowers who have defaulted on their loans or who are experiencing long-term financial hardship to modify their repayment plan so the borrower stays on track with their repayment.
- Forgive the loan(s) for a deceased or totally and permanently disabled student borrower who is the beneficiary of the loan proceeds, and proactively inform borrowers and/or family members who are eligible for forgiveness. If the loan of a deceased or totally and permanently disabled student borrower has a cosigner, the cosigner should be released from the obligation and the loan forgiven.
- Adhere to their long-standing practice of not accelerating or placing a good-standing loan in auto default due to a cosigner’s death or bankruptcy filing.
- Proactively reach out to borrowers who are behind on payments and make every reasonable effort within existing laws and regulations to contact them and offer assistance before utilizing collection activities or taking legal action.
- In the event that collection activities are employed, charge only those collection fees that are reasonable in relation to the cost of collecting the debt.

This document is subject to be updated based on changing market conditions.

December 5, 2016
## EXHIBIT B

**Current Repayment System: Too Many Options Invite Borrower Confusion**

### REPAYMENT PLANS
- DL Standard Pre-HERA
- FFELP/DL Standard Post-HERA (4)
- DL Graduated Pre-HERA
- FFELP/DL Graduated Post-HERA (4)
- DL Extended Pre-HERA
- FFELP/DL Extended Post-HERA (4)
- Income-Sensitive
- Income-Contingent Version 1 (5)
- Income-Contingent Version 2 (5)
- Income-Contingent Version 3
- Forced Income-Driven
- Income-Based
- Pay As You Earn
- Income-Based (2014)
- Alternative (6)
- REPAYE

### DEFERMENT
- School (1)
- School Full-Time (2)
- School Half-Time (2)
- Post Enrollment (1)
- Graduate Fellowship (3)
- Unemployment Deferment — 2 Years (2)
- Unemployment Deferment — 3 Years (1)
- Economic Hardship (1)
- Rehabilitation Training Program (3)
- Military Service (3)
- Post-Active Duty Student (3)
- Teacher Shortage (2)
- Internship/Residency Training (2)
- Temporary Total Disability (2)
- Armed Forces or Public Health Services (2)
- National Oceanic and Atmospheric Administration Corps (2)
- Peace Corps, ACTION Program, and Tax-Exempt Organization Volunteer (2)
- Parental Leave (2)
- Mother Entering/Re-Entering Work Force (2)

### FORBEARANCE

#### Discretionary Forbearance
- Hardship Forbearance

#### Mandatory Forbearance
- Medical or Dental Internship Residency
- Department of Defense Student Loan Repayment Programs
- National Service
- Active Military State Duty
- Student Loan Debt Burden
- Teacher Loan Forgiveness

#### Mandatory Administrative Forbearance
- Local or National Emergency
- Military Mobilization
- Designated Disaster Area
- Repayment Accommodation
- Death
- Teacher Loan Forgiveness

### FORGIVENESS
- Teacher Loan Forgiveness
- Loan Forgiveness for Service in Areas of National Need
- Civil Legal Assistance Attorney Student Loan Repayment Program
- Income Contingent Repayment Plan Forgiveness
- Income Based Repayment Plan Forgiveness
- Pay As You Earn Repayment Plan Forgiveness
- Income Based 2014 Repayment Plan Forgiveness
- REPAYE Repayment Plan Forgiveness
- Public Service Loan Forgiveness