



Inside the Industry with Harrison Wadsworth

To answer questions about the Student Aid Fiscal Responsibility Act (SAFRA), we are going to an expert on the pending legislation, Harrison M. Wadsworth III, Executive Director of COHEAO. Under his leadership, COHEAO has actively organized grassroots support in favor of preserving the best aspects of the current Federal Perkins Loan Program since the legislation was introduced earlier this year.

COHEAO (Coalition of Higher Education Assistance Organizations) is a partnership of over 300 educational and commercial members which promotes access to post secondary education. Its focus is on legislative and regulatory advocacy for Federal Perkins and other campus-based student loan programs.

Question: What makes COHEAO unique?

Harrison: COHEAO is the only organization that serves Perkins loans, and it was founded specifically for that purpose. During the past year, we also have also been focusing on accounts receivable management and have established an Accounts Receivable Management Task Force. We included a presentation on best practices for accounts receivable management at our Mid-year Conference, and two Webinars on the subject are scheduled for later this month. Accounts receivable management is a logical direction for COHEAO to move into, and it expands our scope into institutional loans.

Question: What is SAFRA?

Harrison: SAFRA stands for the Student Aid and Fiscal Responsibility Act, and it is the House Education and Labor Committee's version of the President's proposal for student loan reform. The House added other spending provisions and folded the current Perkins program and FFEL program into the Federal Direct loan program. SAFRA radically changes the Perkins loan program and increases the funding cap on Pell grants.

SAFRA purposes to save \$87 million in education expenses, but Perkins loan funding will be expanded from \$1.4 billion dollars to \$6 billion. The Federal Perkins loan program will become the Federal Direct Perkins loan program, which mirrors the Federal Stafford Unsubsidized loan program. Increased Perkins funding comes from recalling all money from current Perkins revolving funds. Other provisions include eliminating the in-school interest deferment, most cancellation benefits, and school involvement in the repayment process. The Department of Education's Direct loan contractors would handle all servicing and collections.

The only difference between Federal Direct Perkins loans and the Federal Stafford Unsubsidized loans will be the interest rate. Perkins loans will carry an interest rate of 5% while unsubsidized Stafford loans will carry an interest rate of 6.8%. Students may be required to maximize Stafford loan

lending, before qualifying for a Direct Perkins loan.

Question: What are the advantages of SAFRA?

Harrison: The Perkins loan fund will increase from \$1.4 billion to \$6 billion, with a goal of allowing more schools to participate in the program and providing loans for more borrowers. However, the expansion will partially derive from eliminating the deferred interest benefit and reducing cancellation benefits. As conceptualized, the Direct Perkins loan program will supplant the need for private educational loans and allow more schools to participate.

Question: What are SAFRA's disadvantages?

Harrison: COHEAO believes that neither of these goals will be accomplished. Perkins loans are needs-based, and borrowers who qualify for private loans usually would not be eligible for Perkins loans and vice versa. School participation may be limited by the requirement for matching funds.

Question: Let's get into specifics. How much in matching funds will schools have to pay to participate in the program?

Harrison: That's the big question mark. Under the House bill, it's up to the Secretary of Education to decide. Originally schools were supposed to pay for the in-school interest deferment, but the bill coming out of the

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House Education and Labor Committee does not provide for that. The current bill includes placeholder language, but some kind of institutional match will be required.

Question: If the in-school interest benefit is eliminated, how much extra could a Perkins borrower end up owing?

Harrison: If a student borrows the maximum Perkins amount of \$5,500 each year for four years and interest is capitalized, they would owe about \$27,000 upon graduation. With the current interest deferment, they would only owe around \$22,000.

Question: How would cancellation benefits be different for Perkins loans in the future?

Harrison: If passed, the legislation will eliminate current Perkins cancellation benefits for loans made after July 1, 2010, and new cancellation benefits will mirror those of the Federal Stafford Unsubsidized loan program. Under the new program, teachers meeting certain requirements will be eligible to have part of their loan canceled after five years of teaching, and some public service professionals will be eligible to have their remaining loan balance canceled after 10 years of repayment. Under most circumstances, the borrower will have repaid their loan by that time.

However, the new Perkins loans will qualify for the Income Sensitive Repayment Program, which bases loan payments on income. After 25 years of repayment, the borrower's loan can be forgiven if program requirements are met.

Question: If the legislation passes, what will schools do with money as it is repaid for current Perkins loans?

Harrison: As the money is collected, the school will have to send the federal contribution back to the Department of Education, after deducting their institutional share. Schools could also transfer their loans to the Department at one time.

Question: Will schools lose their ability to participate in the Direct Perkins program?

Harrison: All current Perkins schools will be grandfathered in if they wish. The bill calls for schools to receive the same level of funding they currently have, based on the average of their loan volume over the last five years.

Question: What will happen to the borrower/school relationship after the award of the loan?

Harrison: It will change dramatically—there will be none at all! Federal contractors, chosen by the Department, will service all Direct loans.

Question: Why is the borrower/school relationship important?

Harrison: Schools now work with their borrowers to resolve payment issues. In the future the loans will be part of the Direct loan repayment system. Borrowers would have to call the Department's contractors if they have a problem, and some may not call at all. If a borrower defaults, the school would get the blame for making the loan, but would have no role in collections.

Question: What will happen to the school/servicer relationship?

Harrison: There will be no school/servicer relationship for loans made under the Federal Direct Perkins loan program.

Question: Can schools continue to use their current servicer for loans issued before July 1, 2010?

Harrison: Yes. Schools can use their current servicer.

Question: Will schools be reimbursed for administrative costs for the loans made under the current Master Promissory Note?

Harrison: Under the current proposal, schools will be paid a 50 basis point fee for loan servicing, based on outstanding principal and interest.

Question: What is COHEAO doing to advocate against the proposed changes to Perkins?

Harrison: COHEAO has worked to notify schools about these proposed

changes since February. We also have spread the word through our COHEAO Web site (www.coheao.org), which provides information, such as sample letters, talking points, and legislative contact information.

In addition we have worked with the House Education and Labor Committee and made suggestions to retain the better points of the new Perkins legislation (expanded funding), but leave the current Perkins in-school interest deferment, cancellation benefits, and servicing options in place. We sponsored the September 17 and 18 *National Call In Days* to urge schools to contact their elected officials.

Although the House has passed the SAFRA, the Senate has not, so we are asking schools to contact their senators with their concerns. In addition, the House will have another vote on final legislation later this fall. Any hope of changing SAFRA will require that schools get involved in the process.

Don't wait. Contact your Senators today.

Harrison M. Wadsworth III currently serves as executive director of the Coalition of Higher Education Assistance Organizations and works with other clients as a principal at Washington Partners, LLC, a DC-based government and public relations firm. Mr. Wadsworth has over 25 years of experience in public policy and communications, including 19 years working on various aspects of higher education policy. Previously he served as the vice president and deputy executive director of the Education Finance Council, a trade association working on student loan financing and other higher education issues. Mr. Wadsworth served for eight years as legislative director and press secretary for U.S. Representative Bart Gordon, currently the chairman of the House Science and Technology Committee, and for seven years as a daily newspaper reporter and editor. He received a Bachelor of Arts degree in Mass Communications from the University of California, Davis in 1977 and a Master of Arts degree in Economics and American Foreign Policy/Security Studies from Johns Hopkins University School of Advanced International Studies in 1987.