Agenda

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

I'M NOT DRIVING, YOU DRIVE. I'M NOT DRIVING, YOU Drive....

FISCAL CLIFF

THELMA, UNCLE SAM & LOUISE

www.investors.com/cartoons
Climate Drivers

1. Partisanship & Brinkmanship
2. Budget Politics Dictating Policy
3. Deficit Reduction
Federal Budget Pie
How Big is Our Piece?

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

Net Interest
$223
6%

Medicare & Medicaid
$802
23%

Social Security
$768
22%

Defense Department
$670
19%

Discretionary
$615
17%

Other Mandatory
$461
13%

Total
$3,539 B

Source Data: CBO Historical Tables
Fiscal Cliff Triggers

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

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

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

- How does it impact student aid?
  - FWS—5 percent cut for AY 2013–14 (fair share only)
  - SEOG—5 percent cut for AY 2013–14 (fair share only)
  - TEACH—6 percent cut for awards first disbursed after March 1
  - Origination fee increases:
    - Direct Loans: Increase from 1.00 to 1.051
    - PLUS: Increase from 4.00 to 4.204

- What about the Pell Grant?
  - Pell is exempt in during the first year
  - Pell is *not* exempt in years 2–10
What can we expect next?

- Sequestration is a 10-year process. Congress can, at any time, repeal sequestration.

- Currently there is not any momentum to halt sequestration, but that could change, given the out-years pose significant, and different harmful cuts.
Fiscal Year 2013 Budget

- Congress passed a final FY 2013 budget mid-March
  - Funds federal government through Sept. 30
  - Impacts award year 2013–14
  - Funds (for the most part) federal government at 2012 levels
  - Sequester cuts are then imposed on those levels
  - Pell maximum will be $5,645
Impacts award year 2014–15
House and Senate have both passed their budget resolutions ("Roadmaps")
Next step is the appropriations process
President Obama recently released FY 2014 Budget Request
Other Triggers

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

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

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

- House Republicans
- Senate Republicans
- Senate Democrats
- President Obama
- Others
Smarter Solutions for Students Act

- Proposed by House Republicans, passed by House
- Long-term fix, sets rates at 10-yr T-note plus add-ons of 2.5% (Stafford) and 4.5% (PLUS)
- Caps Stafford at 8.5% and PLUS at 10.5%
- True variable
Comprehensive Student Loan Protection Act

- Proposed by Senate Republicans, did not advance in Senate
- Long-term fix, sets rates at 10-yr T-note plus add-on of 3% for all loan types
- No cap
- Variable-fixed
Proposed by Senate Democrats, did not advance in Senate

Short-term fix, extends current rates for two years

Paid for ($8.3 billion) by closing three tax “loopholes”
President Obama’s Proposal

- Long-term fix, sets rates at 10-year T-note plus add-ons of:
  - .93 percentage points for Subsidized Stafford
  - 2.93 percentage points for Unsubsidized Stafford
  - 3.93 percentage points for PLUS

- Variable-fixed
- No cap
- Expands Pay As You Earn
Other Proposals

- Sen. Warren (D–MA), sets rates at the same rate as the Federal Reserve Discount Window (currently .75%) for one year
- Sen. Gillibrand (D–NY), allows most student borrowers to refinance into fixed 4% loans
- Rep. Sinema (D–AZ), extends current rates until 2017
- Sen. Reed (D–RI), long-term fix that sets rate at 91-day T-note plus an add-on determined by Secretary, cap= 6.8%/8.25%, true-variable
NASFAA Proactive Policy
Proactive Policy

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

Focuses on four Policy Areas:

- Examining the Value of Institutional and Student Skin in the Game
- Reforming Student Loans
- Streamlining and Improving Consumer Information
- Rethinking Entitlement Aid and Professional Judgment
Reimagining Aid Design & Delivery

Specific recommendations:
- Super Pell
- Campus-based aid and graduation rates
- Student loan eligibility index
- Automatic income-based repayment (IBR)
- Pell Promise
- Pell Well
- Provide predictive wage information
- School authority to limit loans
Commissioned by NASFAA Board in November 2011

Examined best practices in award letter notifications and provided recommendations

Findings support standardizing *elements*, but not a standardized letter; a standardized letter risks being too prescriptive
Award Notification Task Force

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

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

Report was released in February
Indebtedness Task Force

Recommendations:
- Allow Institutional Authority to Set Loan Limits for Certain Borrowers
- Rethink the Current Structure of Loan Subsidies
- Implement a “Variable, Fixed” Interest Rate Based on Annual Market Rate
- Tighten Underwriting Standards for Parent PLUS Loans
Recommendations, cont.:
- Create a Universal Loan Portal for Students
- Standardize the Process for Repayment Options
- Shift Traditional Entrance & Exit Counseling Toward the Department of Education’s Financial Awareness Counseling Tool
- Re-visit the Regulatory Burden of Private Lender Lists
Reauthorization Task Force

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

- NASFAA consumer-tested three award letters with students and parents:
  - US Department of Education Shopping Sheet
  - Letter formed from NASFAA Award Letter Task Force
  - A hybrid of the first two

- Main finding? No Clear Winner
  - Consumers found things they liked and didn’t like, about each letter
  - Reinforces the need to consumer test before making public
 Advocacy & You

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