United States House of Representatives
Committee on Education and Labor

Thursday, May 21, 2009 at 10:00 a.m.
2175 Rayburn House Office Building

Increasing Student Aid through Loan Reform
Testimony by
René A. Drouin, President & CEO, The NHHEAF Network Organizations

Chairman Miller and Members of the Committee:

For the record, I am René A. Drouin, a resident of New Hampshire and the President and CEO representing the nonprofit New Hampshire Higher Education Assistance Foundation (NHHEAF) Network Organizations. The Organizations are comprised of four 501(c)(3) nonprofit agencies that provide students and families with the resources and funding to pursue higher education aspirations. Funds generated by the Organizations make its charitable mission possible as student loan earnings are reinvested in programs and services that benefit citizens of New Hampshire.

It is an honor to participate in these discussions on behalf of the students and parents we serve and on behalf of the Organizations' dedicated and talented staff of over 200 New Hampshire residents.

I have been asked to describe ideas for loan reform which: increase student aid through cost saving, make federal loan funding more reliable and preserve the best aspects of the existing Federal Family Education Loan (FFEL) and Direct Loan (DL) programs.

I began my career at NHHEAF in 1978 managing its default claims. I experienced first-hand the value that a local nonprofit agency can have on the repayment of federal loans. I have served as Chair of the National Council of Higher Education Loan Programs where I came to appreciate the importance of dedicated people and infrastructure in every region to serve students and parents. And, as a two-term member of the Advisory Committee on Student Financial Assistance, I have been actively involved in advocating for financial aid policy which increases opportunities for low-income students. I have dedicated 30 years of my life to making higher education more accessible through my work with the FFEL program. Still, I see clearly, that the student aid program is in need of transformation. However, to suggest, as the President's 2010 budget proposal does, that the federal government, or its big contractor located outside of New Hampshire, could do a better job of supporting NH college students, their schools and their parents is unimaginable. So, the NHHEAF Network Organizations has developed the following conceptual loan program in response.

Proposed Loan Flow & Rationale
Under NHHEAF's proposal, the following occurs:

1. **A student completes the Master Promissory Note (MPN) from the designated local provider** (For discussion, in New Hampshire NHHEAF would be a designated provider.)

2. **All postsecondary schools would utilize the Department's current systems to administer all federal aid - Common Origination & Disbursement System (CODS) and G5 Website.** Once the loan is approved through CODS, NHHEAF would disburse funds to the school. Both technologies were built with taxpayer dollars and should be used to administer this new loan program. The biggest advantage for schools with these systems includes managing payments and data across multiple programs. From the loan perspective, it would provide a uniform way for agencies and schools to share information for more efficient processing and default aversion practices.

3. The credit crisis has made it clear that the federal student loan program would benefit from changes which ensure the availability of funding from Treasury. **By leveraging federal funding, NHHEAF then participates the loan within 15 days of initial disbursement to the Department and sells or "puts" the loan within 120 days of final disbursement. The key is that NHHEAF continues to support schools and students with entrance and exit counseling, financial literacy programs and local compliance expertise. And, the Department holds the asset - keeping the interest from the loans it already subsidizes resulting in cost savings to fund increases in Pell and other aid programs.** This leaves one loan program with standard terms, conditions and administration. It simplifies the process for students and schools, while ensuring funding for the program and guaranteeing excellence in borrower education and compliance while the student is in school.

4. **Loans (in periods of grace or repayment) are then serviced by the originating private lender (in line with the Department's servicing and pricing standards).** This creates "life-of-loan" servicing (which we credit with our achievement of continuously low default rates.) This drives service excellence with pay for performance pricing which will result in savings to the Department and innovation in servicing. Moreover, it utilizes existing infrastructure and knowledge at the state and nonprofit agencies, and supports borrowers from application through final payment. This is critical to successful default prevention. The most recent draft cohort default rate for NHHEAF is only 3.1%, while the national default rate is 6.9%. It has been said that going 100% DL puts the taxpayers' interests first. But, the reality is that in every category of loan, FFEL default rates are lower than DL's. We need a plan that allows students to enjoy high levels of service and effective default prevention programs offered by FFEL agencies. Our reputation has been built on personalized service for students. And, our greatest strength is, by far, the dedicated New Hampshire-based employees who provide borrowers in repayment with expertise throughout the life of their loan. There are 40,000 FFEL staff nationally. There already exists the infrastructure to provide the K-12 outreach, entrance and exit loan counseling, compliance for schools and community support. Under the new budget proposal, no small agency will qualify to service the Direct Loans but the big players. I wholeheartedly believe that smaller, well-managed agencies can be most effective because they are nimble and can respond rapidly to changing national priorities and local realities.

Finally, this model allows agencies like ours to continue the commitment to creating a college-going culture locally. President Obama has passionately expressed that expanding college access and success is a national priority. New Hampshire is well prepared to actualize this vision. In fact, increasing college aspirations has been NHHEAF's highest goal. We provide programs throughout the educational continuum for all populations of student: foster youth, adult learner, dislocated worker, rural student, grad student. So, the retort that going 100% DL would "help students, not lenders" simply does not apply to nonprofit loan providers. In New Hampshire, we serve 30,000 individuals each year with direct service. And, ninety-three percent of the public high schools rely upon our programs and materials. When asked last year to describe how our agency has impacted his students, a very well-respected and experienced guidance director replied, "NHHEAF is the best thing to happen to higher education since I started teaching in 1978."

This plan incorporates the best aspects of DL: web-based administrative tools and reliable funding. This plan also incorporates the best aspects of FFEL: expert default prevention practices, personalized and local service and commitment to creating a college-going culture locally.

A proposal like this could fundamentally change the way student loans are provided while simplifying and enhancing that which already exists. The FFEL Program has provided education funding to millions of Americans since its inception. As the Committee compares options, I ask you to carefully consider the significance of eliminating FFEL completely and, instead, to choose to imagine a loan program that upholds the best aspects of the public private partnership which in so many ways has worked so very well for so very long.

Considerations in the Development of the Proposal Included:

- Preserve local nonprofit agencies' ability to facilitate college access and successful student loan repayment
- One common loan program for simplicity and standardization
- Access to federal agency COD system by non-profit participants
- Funding advantage with combination of public/private funding combining bridge funding and restructured participation and "put" funding
- Support budget savings goals while maintaining competition and choice by preserving the best aspects of the FFELP & DL system
- Pay for performance incentives to ensure default prevention and customer service excellence
- Restructure guaranty agency role to focus on default prevention and financial literacy

Features

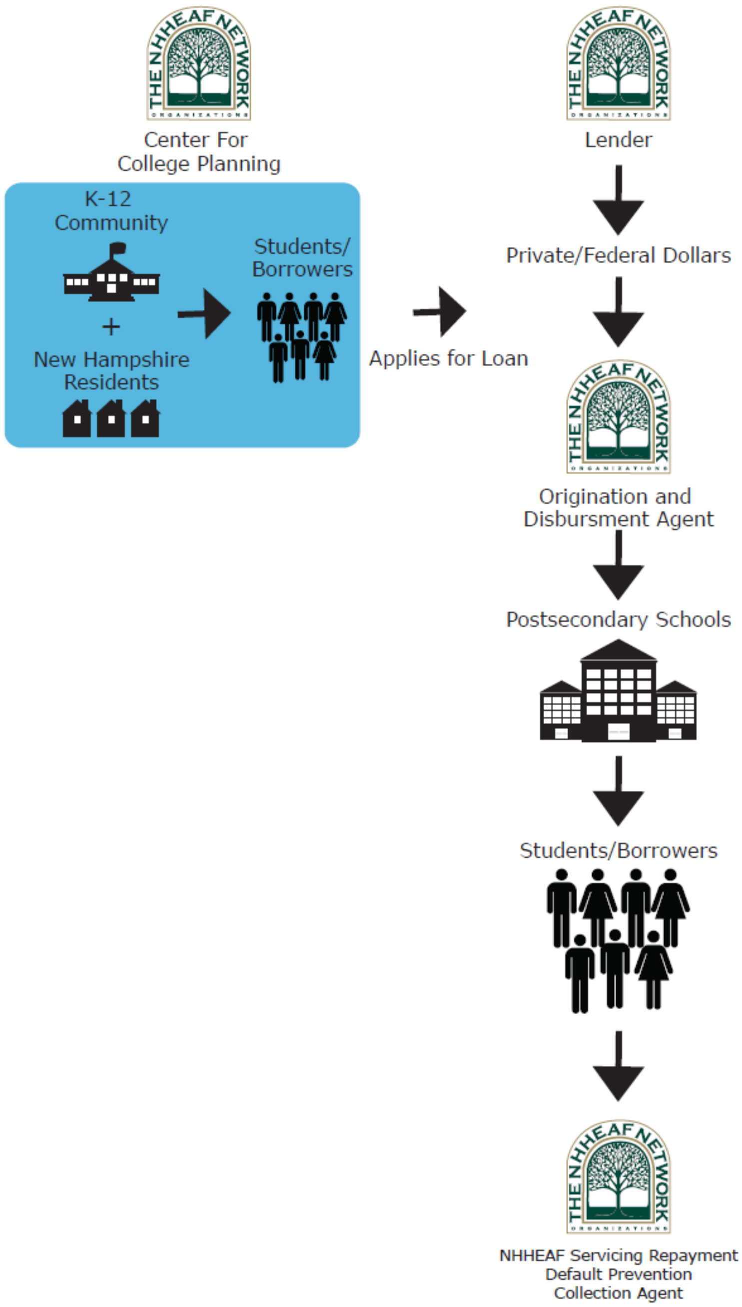
- Hybrid Private/Federal Funding – Private Loan Bridge Funding, Participation to ED within 15 days of disbursement, "put" to ED within 120 days of final disbursement.
    - Participate direct to ED – no custodian
    - Ability to participate daily
    - Eliminate Lender Fee
    - No SAP or Interest Subsidy
- Loan Terms - One loan program providing standard terms and conditions with two loan channels, direct and private.
- Lender provides short term funding and loan origination customer service support
- Servicing – Meet student/borrower needs by allowing existing nonprofit student lenders to choose a loan servicing provider in line with ED's servicing and pricing standard criteria.
- Guarantor restructuring to focus on default prevention activities for successful borrower repayment – pay for performance pricing.
    - Monthly pre-claim letters during delinquency- a series of eight auto-generated preclaim letters sent monthly to delinquent borrowers.
    - "Don't Default" Literature Mailing – outlines borrower options save prevent student loan default.
    - Handwritten "Quick Memo" – requests borrowers to contact us to assist them in preventing default.
    - Late Stage Delinquency - persistent contact attempts via phone, email, and mail to borrowers and references
    - Extensive Skip Tracing – to locate both borrowers and references, including the use of Internet tools.
    - Borrower contact for education and assistance, focusing on life circumstances, completion of paperwork, and follow up to ensure the borrower completes the appropriate steps in order to prevent default.

Benefits

- Supports cost savings to the President's budget
- Strengthens default prevention programs through performance based pricing
- Provides stability, simplicity, and competition to benefit schools and borrowers
- Preserves best practices in the industry to support default prevention efforts, customer service excellence, and low cohort default rates
- Local support to schools and borrowers

- Minimizes local job loss
- Drives innovation, efficiency, and service excellence through competition performance based criteria

NHHEAF Proposed Flow



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