



## **Current and Future Developments in Student Financial Aid**

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# About the Speaker

## ■ **Nationally recognized expert on student financial aid**

- Quoted in 672 newspaper and magazine articles in 2008
- Testified on the credit crisis and student loans before the Senate Banking Committee in 2008, leading to passage of the Ensuring Continued Access to Student Loans Act of 2008

## ■ **Publisher of FinAid.org**

- The most popular free web site for student financial aid information, advice and tools

## ■ **Publisher of FastWeb.com**

- The largest and most frequently updated free scholarship matching web site

# American Recovery and Reinvestment Act of 2009

- Significant increase in the Pell Grant (2009-10)
  - Maximum Pell Grant increased by \$619 to \$5,350
  - Largest dollar increase since the program began in 1973-74
  - 800,000 more students will qualify (7 million total)
  - Minimum Pell Grant increased to \$976
  
- 529 plan distributions may be used to buy computer technology and equipment in 2009 and 2010 even if not required by the college
  
- \$200 million increase in funding for Federal Work Study
  - Enough funding for 181,000 more students
  
- \$200 million increase in funding for National Service

# American Recovery and Reinvestment Act of 2009

## ■ American Opportunity Tax Credit (2009 and 2010)

- Increases maximum Hope Scholarship from \$1,800 to \$2,500
  - 100% of first \$2,000 in tuition, fees and course materials (textbooks)
  - 25% of second \$2,000 in tuition, fees and course materials
- Increases availability from first 2 years to first 4 years of college
- Credit is partially refundable (40% → up to \$1,000)
  - Low income families can now benefit from the tax credit
- Expands income phaseouts to \$80,000/\$90,000 (single) and \$160,000/\$180,000 (married filing joint)
- Credit may now offset the Alternative Minimum Tax (AMT)

# Income-Based Repayment (IBR)

- New federal student loan repayment plan, effective July 1, 2009
- Monthly payments based on a percentage of discretionary income instead of the amount owed
- Caps monthly payments at  $15\% \times (\text{AGI} - 150\% \text{ of the poverty line})$
- Monthly payment is zero if AGI is less than 150% of the poverty line
- Federal government pays any unpaid interest on subsidized Stafford loans during the first 3 years
- Remaining debt forgiven after 25 years in repayment (taxable)
- Forgiveness after 10 years if employed full-time in public service and repaying loans in the Direct Loan program (not taxable)

# Income-Based Repayment (IBR)

- Not available for Parent PLUS loans or private student loans
- Counts only borrower's income for married borrowers who file federal income tax returns as married filing separately
- Best for borrowers with a high education debt to income ratio (1.0 or higher) or who are pursuing public service loan forgiveness
- Yields loan payments of less than 10% of gross income for many borrowers
  - Single borrower with less than \$50,000 in income
  - Married borrower with less than \$100,000 in income

# IBR Examples

- Single Bachelor's degree recipient with \$40,000 federal student loans and an AGI of \$30,000/year
  - Cap of  $15\% \times (\$30,000 - 150\% \times \$10,830) / 12 = \$171.94/\text{month}$
  - Compare with \$460.32 (10-year repayment) or \$277.63 (25-year repayment)
- Public defender or prosecutor with \$120,000 in federal student loans from law school and an AGI of \$40,000/year
  - Monthly payments under IBR are 8.9% of gross income
  - Monthly payments under 10-year repayment are 41.4% of gross income
  - Monthly payments under 30-year repayment are 23.5% of gross income

# Higher Education Opportunity Act

- Increases Perkins Loan Limits
  - Undergraduate: Annual \$5,500 and Aggregate \$27,500
  - Graduate: Annual \$8,000 and Aggregate \$60,000 (includes undergrad)
- Simplifies the Free Application for Federal Student Aid (FAFSA)
  - Prefill FAFSA with data from the IRS
  - Intelligent skip logic to skip unnecessary and irrelevant questions
  - Simpler 2-page EZ FAFSA form for low income families
- First steps toward standardization of financial aid award letters
- New Truth in Lending Act disclosures for private student loans and conflict of interest rules

# Higher Education Opportunity Act

- Modified definition of independent students effective 2010-11
  - is an orphan, in foster care, or a ward of the court, or was an orphan, in foster care, or a ward of the court at any time when the individual was 13 years of age or older
  - is, or was immediately **prior to attaining the age of majority**, an emancipated minor or in legal guardianship as determined by a court of competent jurisdiction in the individual's State of legal residence
  
- Financial aid administrators can now allow a dependent undergraduate student to borrow from the unsubsidized Stafford loan program if parents have ended financial support and refuse to complete the FAFSA

# Higher Education Opportunity Act

- Veterans education benefits and military housing will no longer affect aid eligibility starting July 1, 2010
- Eliminates accrual of interest on Federal Direct Education Loans for active duty servicemembers for up to five years for loans first disbursed on or after October 1, 2008
- Establishes need-based scholarship program for family members of veterans who served or are serving since September 11, 2001 (\$5,000/year, capped at cost-of-attendance, preference for Pell Grant recipients)

# More Families Applying for Student Financial Aid

- Increase in number of families submitting the Free Application for Federal Student Aid (FAFSA)
  - Up 10.5% in 2008 vs. 2007 (more than 1 million additional applicants)
  - Up 20.8% in first quarter of 2009 vs. first quarter of 2008
- More families appealing for more aid
  - Some colleges reporting a doubling of professional judgment reviews
  - Colleges are more likely to make adjustments for job loss and salary reductions
  - Colleges are less likely to make adjustments for investment losses in college savings plans

# Loan Availability

- Ensuring Continued Access to Student Loans Act of 2008 increased unsubsidized Stafford loan limits by \$2,000/year
- 27% increase in the number of federal education loans in 2008-09 vs. 2007-08 (4.2 million more loans)
- Impact of credit crisis on federal and private student loans appears to have stabilized
- Sallie Mae replaced their Signature private student loan with a Smart Option private student loan that requires interest-only payments during the in-school period
  - Avoids added costs from negative amortization and cuts repayment term from 15-30 years to 5-15 years

# Scholarships and Grants

- Number of scholarships flat to slightly increasing
  - Contrast with steady increases in previous years
  - Stock market losses and Madoff effect had an impact on endowments
  - There will be increased competition for scholarships
- State student aid programs reduced
  - Recession causes reduction in state income tax revenue and lottery revenue
  - State support of higher education among the first to be cut
  - Some states tightening eligibility criteria to reduce number of awards but leaving award amounts unchanged while others cut award amounts

# Pending Legislation

- Student Aid and Fiscal Responsibility Act of 2009 (SAFRA)
  - Reported out of the House Education and Labor Committee 7/27/09
  - Expected to pass the House soon
- Private Student Loan Debt Swap Act of 2009
  - Referred to Senate Committee on Health, Education, Labor and Pensions on 7/30/09

# Student Aid and Fiscal Responsibility Act of 2009

- Implements several of President Obama's FY2010 budget proposals
- Sets maximum Pell Grant at \$5,550 in 2010-11 and indexes it to inflation plus 1% thereafter, rounded to the nearest \$5, reaching \$6,900 by 2019-2020
  - Pell Grant would not become a true entitlement, so funding not guaranteed
  - Number of Pell Grant recipients would not increase
- Simplifies the Free Application for Federal Student Aid (FAFSA)
  - Eliminates all 6 asset questions (no more penalty for savings)
  - Eliminates 12 untaxed income and benefits questions

# Student Aid and Fiscal Responsibility Act of 2009

- Switches to 100% Direct Lending for federal education loans, ending the federally-guaranteed student loan program
  - Main practical impact from a family perspective is a lower interest rate for the PLUS loan (7.9% vs. 8.5%) and a slightly better PLUS loan approval rate
- Changes interest rates on subsidized Stafford loans for undergraduate students starting July 1, 2012
  - Scheduled reversion to 6.8% fixed rate will be replaced with a variable rate of the 91-day T-Bill rate plus 2.5% with a 6.8% cap
- Establishes \$3 billion College Access and Completion Innovation Fund to improve college access, retention and graduation rates, provide financial literacy training, and streamline transferring from 2-year colleges to 4-year colleges

# Student Aid and Fiscal Responsibility Act of 2009

## ■ Reengineers the Perkins Loan Program

- Increases funding from \$1.5 billion a year to \$6.0 billion a year
- Increases number of colleges from 1,800 to 4,400
- Awarded by colleges to students with financial need but serviced by the Direct Loan program
- Intention is targeted loan limit increases to replace private student loans
- Proposed as an alternative to another across-the-board loan limit increase in the unsubsidized Stafford loan program (concern about potential for overborrowing)
- Similar to the unsubsidized Stafford loan (drops subsidized interest but retains 5% interest rate)

# Private Student Loan Debt Swap

- Proposal by Senator Sherrod Brown (D-OH) to allow borrowers with private student loans to replace them with federal student loans
  - The loans must have been originated from 7/1/1994 to 7/1/2010
  - Loan limits based on untapped eligibility for unsubsidized Stafford loans (undergraduate and graduate student borrowers) and Grad PLUS loans (graduate student borrowers)
  
- Borrowers must be in repayment and not in default on any federal education loans
  
- Borrowers must have made at least 2 consecutive payments on the private student loans and not be more than 90 days delinquent on the loans
  
- Borrowers must not have an adverse credit history

Thank You!