

Response of Pennsylvania Higher Education Assistance Agency (PHEAA) to U.S. Department of Education Federal Register Notice: Evaluation of Existing Regulations

ISSUE 1: FAFSA School Order provided to State Grant Agencies (also known as "FAFSA masking")

Issue Summary: The U.S. Department of Education has delayed the planned re-ordering or scrambling of the names of the schools that a student applicant lists on the FAFSA, prior to sending the FAFSA results to state grant agencies. If this re-ordering occurs in the future, state grant agencies will not know which school a student listed first and will have to ask the student for additional information to determine which school should be attached to the student's state grant record for awarding and payment of grant funds. This creates burdens and obstacles for needy students.

Background: PHEAA and other state grant providers use FAFSA records in the awarding of State Grant aid. Historically, the schools listed on a student's FAFSA have been provided to a state grant agency in the order the student lists them, providing the agency with information on the school the student is most likely to attend and facilitating the awarding of state funding to students. The Department had proposed to alter this policy and provide the student's school choices in scrambled order to state grant agencies. The order of the schools does not affect the student's eligibility for a Pennsylvania State Grant in any way. PHEAA does not provide information on the student's selection order to schools. State grant agencies appreciate that the Department has placed this policy on hold again for 2018-19.

Impact: If the proposed policy were implemented, PHEAA and other state grant agencies would have to request that all students provide or confirm the name of the school where the student wishes State Grant funds to be disbursed. This adds an unnecessary additional application burden for students who are seeking State Grant funding. While it does not affect the student's eligibility, the re-ordering of school names delays the actual disbursement of State Grant aid to the correct institution. This is critical in getting funds to students for their use in paying college expenses such as tuition, room and board, transportation, or textbooks. In the 2015-16 application cycle, over 80% of first-year, first-time recipients of the Pennsylvania State Grant Program attended the school which they had listed first on their FAFSA, making the process more streamlined and allowing funds to be delivered expeditiously to needy students.

Recommendation: Make permanent the current practice of passing school names on the FAFSA through to state grant agencies in the order each student provided. Regulatory cite: 34 CFR 668 Subpart E.

ISSUE: FAFSA High School Graduation Questions

Issue Summary: Adding a question regarding the year the FAFSA applicant graduated high school would enhance the ability to match students for the FAFSA Completion Initiative and provide more comprehensive data to schools.

Background: The FAFSA Completion Initiative permits state grant agencies to share selected FAFSA data elements with participating high schools, school districts, and other designated entities. These entities can then work with students who have not filed a FAFSA or assist those who have submitted an incomplete FAFSA. PHEAA partners with the United States Department of Education to provide this service for Pennsylvania students. Applicants are currently asked, "What is the name of the high school where you received or will receive your high school diploma? Enter the complete high school name and the city and state where the high school is located." It is more difficult to match students accurately if the year of high school graduation is not known.

Impact: Obtaining more complete information on high school graduation, including the graduation date, will allow more accurate identification of applicant matches and enable state grant agencies to provide high schools and school districts with more comprehensive data on their population of graduating seniors who filed FAFSAs.

Recommendation: Add the year of high school graduation to the FAFSA to better identify recent high school graduates. The current question could be worded to read: "What is the name of the high school where you received or will receive your high school diploma? Enter the complete high school name and the city and state where the high school is located, as well as the year you did or will graduate from high school." Regulatory Cite: 34 CFR 668 Subpart E.

ISSUE: Improvements to the Teacher Education Assistance for College and Higher Education Grant (TEACH) Program

Issue Summary: The Teacher Education Assistance for College and Higher Education Grant (TEACH) Program was established to encourage individuals to teach in high-need fields in schools that serve students from low-income families. In exchange for receiving grant aid, these recipients agree to teach for four years within an eight-year period at a school or education service agency (ESA) that serves students from low-income families. This federal program has met criticism, however, over the stringent administrative requirements that sometimes result in grants converting to loans even though recipients are fulfilling teaching commitments. Improvements can be made to assure that students who have fulfilled their service requirements are able to maintain their grant status.

Background: PHEAA (as FedLoan Servicing) has been servicing the TEACH Program for the U.S. Department of Education since July 2013. Our involvement with the program has allowed us to identify significant opportunities for improvement in alignment with the intent of the program to encourage individuals to become teachers.

Impact: Although a relatively small program, FedLoan Servicing and Federal Student Assistance receive a significant volume of complaints, disputes, and escalated inquiries from recipients and other stakeholders, such as legislators and government officials. TEACH is an inherently complicated program, which includes stringent requirements for recipients to submit paperwork on a regular basis. TEACH recipients who miss paperwork deadlines, even by small margins, are subject to having their grants converted to loans. In correspondence from TEACH Grant recipients we have found that there are many reasons why recipients miss paperwork deadlines, many of which have nothing to do with whether they have fulfilled the program's requirements. PHEAA believes that reasonable flexibility can be added to the TEACH Grant Program that will maintain the integrity of the program and assure that recipients meet all service requirements, but limit the number of cases where grants are converted to loans due to "technical" violations of paperwork deadlines.

Recommendation: Adjust the TEACH Grant Program rules to allow recipients to maintain their grant status as long as they can prove that they are meeting program requirements, even if paperwork deadlines are missed. This could include a "grace period" for submitting necessary forms or allowing for retroactive reconversion of loans to grants in cases where borrowers can prove that they have fulfilled all of the program requirements. PHEAA is prepared to work with the U.S. Department of Education to develop potential approaches to improving the TEACH Grant Program. Regulatory Cite: 34 CFR 686.

ISSUE: Revise Loan Rehabilitation Rules to Ease the Transition of Borrowers after Completion of Rehabilitation

Issue Summary: Recently revised rules regarding the Loan Rehabilitation Program provide that borrowers using Loan Rehabilitation must follow a unique set of rules for calculating payments based on their income, which differ from the application process required for non-defaulted borrowers and for borrowers once they have completed Loan Rehabilitation. The result is a confusing, two-step process for borrowers who successfully complete Rehabilitation and transition to mainstream loan servicing. It is PHEAA's view that the high rate of loan re-defaults among students who successfully complete Rehabilitation is at least partially attributable to this complex handoff from collections to servicing.

Background: In 2014, new regulations became effective allowing defaulted borrowers to qualify for a reduced payment based on their income and expenses, rather than the previous "reasonable and affordable" standard for establishing payment amounts. To qualify for a reduced payment, borrowers must either provide proof of income (no application form required) or documentation of their income and expenses, after which a payment is calculated that cannot be less than \$5.00 per month. When borrowers document income and expenses, no proof of income is required. Payments made under this calculation are considered to be qualifying payments towards the nine payments necessary to complete Loan Rehabilitation. Once a borrower is transitioned back to loan servicing, the borrower must complete an Income-Driven Repayment application and provide proof of income in order to have an income based payment, otherwise their payment reverts to a standard repayment schedule which is often significantly higher than the amount they were required to pay during Rehabilitation.

Impact: PHEAA believes that a smoother transition from default collections to loan servicing will assist borrowers in obtaining a consistent payment both pre and post Rehabilitation, maintaining current status, and avoiding loan re-default. Given the wide range of repayment options available to borrowers, including through existing Income-Driven Repayment programs, defaulted borrowers should be able to find a program that works for them and follow a similar application process to obtain the best option. Using a completely different set of rules and calculations for establishing payments during Loan Rehabilitation does not serve the ultimate goal of moving borrowers into active repayment and having them avoid re-default. A recent report from the Consumer Financial Protection Bureau (CFPB) concurred with PHEAA's concerns that re-defaults are an issue that must be addressed so that borrowers avoid this unfortunate circumstance.

Recommendation: PHEAA recommends that defaulted borrowers who agree to rehabilitate their loans be required to follow the same application process and be eligible to enroll in the same income-driven repayment programs that are available to non-defaulted borrowers. PHEAA understands that this may entail accompanying statutory changes. If Income-Driven Repayment calculation results in a \$0 payment, that payment would be set at \$5.00 (the current minimum for Rehabilitation), so the integrity of the Loan Rehabilitation process is maintained. In lieu of a statutory change, borrowers would be encouraged strongly to complete an Income-Driven

Repayment application before making their ninth eligible Rehabilitation payment. This form would be provided directly to the borrower's new loan servicer. Once a borrower successfully completes Loan Rehabilitation, the borrower would maintain the Rehabilitation payment for the following three months (approximately 12 months total) at which time the borrower would then be required to select a repayment plan through the same process required of non-defaulted borrowers. PHEAA recommends that if the borrower does not recertify their application within the first three months after Rehabilitation, the borrower automatically be enrolled in an Income-Driven Repayment plan based on data obtained directly from the Internal Revenue Service. Borrowers would give permission for this direct access to IRS data via a revised Loan Rehabilitation Agreement. Regulatory Cite: 34 CFR 668.405(b).