LEE UNIVERSITY
Financial Aid

Testimony

Of

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Chairman Harkin, Ranking Member Alexander, and members of the Committee:

Thank you for inviting me to testify today. I am Marian Malone Dill and am currently serving as Director of Financial Aid at Lee University in Cleveland, Tennessee. I am a first generation college graduate and was a recipient of Title IV aid as both an undergraduate and graduate student. During my 20 years of aid administration, I have served at 2-year and 4-year institutions in the public and private sectors. I believe in the power of financial aid to assist students in attending college in order to propel them to a better life personally as well as for the prosperity of this great nation. America's brightest and most talented should not be inhibited by their socioeconomic status. Federal student aid exists to help students reach their fullest potential and empower them to lead America and continue our prominence as the greatest country on earth. Education is critical to keeping America competitive in the world market.

To assist the committee in understanding the student population that I currently serve, please allow me to introduce Lee University. Lee is a comprehensive, Christ-centered university located in the Appalachian region of East Tennessee. Lee has become a higher education pioneer by incorporating service learning and cross-cultural studies as a regular part of every student's educational experience. In 2013, Lee University enrolled almost 5,000 students. Of Lee's undergraduate student population:

- 25% were first generation college students,
- 35% received a Federal Pell Grant,
- 55% participated in the Federal Direct Loan Programs.
- 61% of the graduating class borrowed federal student loans with an average per borrower indebtedness of just over $29,000.

Today I want to give you some of the practical insights from my experience as a financial aid administrator working directly with students and parents on federal student loan issues. These insights will demonstrate why our current student loan policies – and how the complexity of regulations in particular – aren't working well for students, families and financial aid administrators. I will divide my comments into two parts, first focusing on student success strategies regarding borrowing and second focusing on simplification of federal student loan programs and reduction of nonessential administrative burdens.

Student Success Strategies

In recent research to determine the profile of Lee students who find themselves most economically harmed by student loan debt, the following information was found:

- 70% of Lee borrowers were in the standard repayment plan, and only 13% were in the Income Based Repayment (IBR) plan.
- The 2010 national three-year Cohort Default Rate (CDR) is 14.7%. Lee University's CDR for the same period is 12.9% as calculated by the U.S. Department of Education. Of the Lee students who defaulted,
    - 80% did not complete their degree,
    - and 94% of those students did not make the first payment.

Under current federal regulations, schools are prohibited from requiring additional loan counseling for students who appear to be over-borrowing or who by statistical indicators appear most at risk of defaulting. Statistical indicators may include marginal academic performance, borrowing beyond direct cost or borrowing beyond potential future earnings based on program of study. Also, schools are not permitted to limit part-time students from borrowing at full-time rates or to slow over-borrowing by students enrolled in academic programs that produce a disproportionate share of loan defaults.

Based on the research and discussion with my fellow aid administrators, I submit the following recommendations:

1. Institutions should be allowed to require additional counseling (if deemed appropriate) for students meeting various identifiable risk factors and before *any* loan disbursement, not just the first one. Currently, schools can offer additional counseling and financial literacy programs, but cannot *require* it in order for the loan to be disbursed. Financial literacy goes beyond the required loan counseling. Its purpose is to educate students on basic budgeting principles and living within their financial means. Additional counseling would reinforce key responsibilities on the part of the borrower and assist in keeping students updated and informed. Institutions should also be allowed to require financial literacy in addition to entrance counseling. I believe educating the borrower while they are still in school, is **key** to successful repayment. Institutions need the authority to require such training in order to promote student success and reduce default rates.

2. Institutions should be allowed to limit borrowing based on broad categories of students while retaining the authority to allow students to borrow up to the federal annual and aggregate limits on a case-by-case basis. Currently financial aid administrators are

prohibited by regulation from requiring extra counseling or financial literacy as a prerequisite to the disbursement of federal student loans. For example, students who are enrolled part-time are still able to borrow the full loan annual amount. This past year, I discovered a student who had only earned 58 credit hours and had virtually exhausted her loan eligibility. How is she going to graduate? She hasn't even reached the junior status. How is she going to successfully repay the almost $57,000 in student loan debt? As an aid administrator, this situation is very alarming, yet because we have not authority over borrowing, we have no practical tools to stop this student from going into further debt. This over-borrowing pattern can have severe consequences for the student, the institution and the federal program.

3. Parent PLUS loan borrowers should be held to a more restrictive underwriting standard. Currently PLUS approvals are based solely upon credit worthiness and are blind to debt to income ratios or ability to repay. In the shift from FFELP to Direct Lending, I observed a drastic increase in PLUS loan approvals. Some parents were actually astonished when they received an approval. I recall one phone conversation with a parent from Baltimore. She was a single mom living solely on various forms of public assistance and was approved for a PLUS loan. She didn't have bad credit. Rather she had no credit and was thus approved. She said to me, "What are they thinking? I can't pay this back." However, in the absence of bad credit the parent was approved.

4. Income-Based Repayment (IBR) should be considered as the automatic repayment plan for borrowers. This would provide a dramatically simplified process for the borrowers and ensure that no borrower's repayment amount would ever exceed their ability to repay and therefore reduce the probability of default. The various iterations of repayment plans can be daunting for borrowers and a move to automatic IBR could help streamline the options. At Lee, we recently held a short seminar for faculty and staff, to assist them in determining what repayment plan would be most appropriate for their individual situation. One participant reported they had been out to the studentloans.gov website and had been researching for over an hour trying to find the right answer. There was just too much information along with unfamiliar terms to easily come to clear understanding.

Simplification and Reduction of Administrative Burden

Of course, there are other areas of consideration to strengthen the student loan programs. I believe there are some practical administrative shifts that would both strengthen the program and reduce some unnecessary administrative burden. This is the second area I would like to submit for your consideration today.

1. Congress should mandate the creation of a single web portal where institutions and students can go and easily access information about federal, private and institutional loans. The nonprofit organization National Student Clearinghouse (NSC) - currently provides a free service, Meteor Network, to both students and schools via a single portal access for both federal and private loans. NSC serves as the unified point of connection between 3300 institutions representing 93% of the national postsecondary enrollment. The Clearinghouse Meteor has the capacity to meet the objective. The U.S. Department of Education should facilitate the development and delivery of a single web portal which would contain all student loan information (federal, private and institutional).

   Currently institutions and borrowers must go to multiple sources to determine their entire loan portfolio. This creates an unnecessary burden for institutions and borrowers. In addition, it increases the probability that an outlier loan will be missed in the repayment or consolidation process. The lack of a simple single source for obtaining all student loan information increases the probability of default.

2. The Department of Education should overhaul existing entrance and exit counseling to provide clear, concise, customer friendly information which meets legislative requirements. Borrowers need ample information to make an informed decision not volumes of consumer information rhetoric. Currently students quickly become lost in the overwhelming amount of information on www.studentloans.gov, which leads to further confusion. This generation is dependent on social media and is accustomed to sound bites and YouTube video for obtaining information. The counseling tools need to provide student friendly verbiage.

   Also, the Financial Awareness Counseling Tool (FACT) does not satisfy legislative requirements. FACT is a well-designed and student friendly interactive resource, but does not meet the regulatory requirements for counseling. This resource needs to be enhanced to satisfy legislative requirements for loan counseling. FACT should provide enhanced counseling options that can be used by institutions to promote success for students meeting various statically at-risk trigger points. These trigger points include poor academic performance, academic programs with high default rates or students borrowing above fixed cost.

3. The primary responsibility of default management should shift to the federal servicers or the former guarantee agencies. In the shift from FFELP to Direct Lending the burden of default management shifted from the lenders and guarantee agencies to the schools. Schools are now faced with the need to hire additional staff to oversee the process, hire costly third party servicers or risk the penalties of rising cohort default rates.

> Over the last year, the Lee University staff has spent a considerable amount of time researching this one topic. The task is daunting. We do not have the system resources to conduct skip tracing, robo-calling or other means formerly employed by the FFELP lending community.
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> The task of evaluating a student's situation alone is very time consuming for the financial aid administrator. Weeding through the various types of loans a student may have from various schools and multiple servicers adds to the confusion and hinders repayment efforts. For example, the research for one delinquent borrower might take up to 45 minutes. Then staff reported taking as much as one hour to assist just one delinquent borrower on a three way call with the federal servicer to ensure the borrower received all the appropriate repayment options in order to prevent default.
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> Students sometimes believe they are successfully repaying their loans or have consolidated all their loans to later find out one was omitted from the process and is now in default. Without expensive software, adequate staff and time to assist students in preventing or resolving defaults, schools are left to outsource default management to third party servicers.

In summary, I hope that my statement and testimony provides insight into why our current student loan policies – and how the complexity of these regulations in particular – are not working well for students and families. I have offered four recommendations regarding student success strategies regarding borrowing that will allow institutions to educate students and families on borrowing, to control loan indebtedness and to assist students and parents regarding loan repayment.

I have also offered three areas of consideration to strengthen the student loan program. These recommendations are practical administrative shifts that would both strengthen the student loan program and reduce administrative burden.

Thank you for your time. I am happy to answer your questions and reserve the right to revise and extend my remarks.

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