

Iowa Legislative Fiscal Bureau

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Review Of Changes In Federal Student Aid Programs

ISSUE

A review of the status of the phase-out of the federal Guaranteed Student Loan Program (Stafford Loan Program) and implementation of the federal direct loan program.

AFFECTED AGENCY

College Student Aid Commission

CODE AUTHORITY

Section 261.35-261.43, Code of Iowa

BACKGROUND

The College Student Aid Commission (CSAC) has acted as a guaranty agency on behalf of the federal government for the operation of the Guaranteed Student Loan Program. This Program allows students attending postsecondary educational institutions to receive student loans from local financial institutions which are then guaranteed against default by the Stafford Loan Reserve Fund.

The Reserve Fund contains funds generated from the federal government for the operation of the Program by the State, student loan generation fees (typically referred to as loan insurance premiums), administrative cost allowances, funds collected on student loans, and investment earnings on the Reserve Fund. Any student meeting the criteria for a loan is eligible for participation in the Program.

Congress has enacted legislation which phases out the Guaranteed Student Loan Program and creates a direct loan program which will be operated by postsecondary institutions. The loans will be guaranteed by the federal government at the federal level rather than with the Reserve Fund. Until FY 1999, both programs will co-exist under current law. The phase-out process will eliminate the current role of a majority of the FTE positions of the CSAC over a period of years. For FY 1996, more than 50.0% of the loans which would have been processed by the CSAC will be handled through the direct loan program.

The CSAC also provides administration of the Osteopathic Loan Program, the Osteopathic Primary Care Program, the Work Study Program, the State Scholarship Program, the Tuition

Grant Program, the Iowa Grant Program, the Graduate Student Assistance Program, and the Vocational-Technical Tuition Grant Program, which are provided for through State General Fund appropriations.

CURRENT SITUATION

Combined Roles for the CSAC Staff. For FY 1995, the CSAC has 33.27 FTE positions authorized for the Stafford Loan Program and 7.05 FTE positions authorized for the administration of State programs. However, the responsibilities of many of the FTE positions are not totally segregated between the Stafford Loan Program and the State programs.

Twenty-one FTE positions are completely dedicated to the Stafford Loan Program handling claims, collections, and regulatory compliance responsibilities. The duties of the other 19.0 FTE positions include accounting, clerical, customer service, programmatic regulation, and management for both the Stafford Loan Program and the State programs.

Details of the Reserve Fund. Approximately two-thirds of the appropriation from the Stafford Loan Reserve Fund (\$2.5 million for FY 1995) is used to contract with outside entities to process new loans, for the maintenance of guarantees, and for the collection of defaulted loans for the short-term portion of the loan portfolio (loans in the process of being paid off). The need for these duties will continue for the life of the loans or until the portfolio is sold. The 21.0 FTE positions referred to earlier also participate in these duties, and therefore may be needed for the life of the loans or until the portfolio is sold.

Most loans take from 7 to 15 years to retire, with the possibility of up to 25 years. The average loan is repaid in about 12 years. The contracted entities and the 21.0 FTE positions would experience some reduction in the outstanding loan amounts as the loans are paid off and the elimination of new loan applications as the phase-out of the Stafford Loan Program occurs. Therefore the contracted entities and FTE positions could be phased out over the life of the loans, or eliminated if the portfolio is sold.

The Stafford Loan portion of the responsibilities of the 19.0 FTE positions referred to are a mix of State responsibilities and Stafford Loan responsibilities that relate to accounting and clerical positions, customer service, as well as management. The Stafford Loan responsibilities are for the actual processing portion of the Program being phased out. The loan volume would control the number of employees necessary for these duties.

Historic Loan Volume and FTE Positions. Table 1 shows the historical loan volume, the outstanding loans, and the authorized Stafford FTE positions.

Table 1
Historic Loan Volume and FTE positions

Fiscal Year	Loan Volume*	Outstanding Loans**	FTE positions
1986	119.6	\$ 634.0	15.0
1987	130.9	\$ 735.4	20.0
1988	135.1	\$ 827.2	25.0
1989	140.0	\$ 917.5	26.8
1990	154.2	\$ 1020.6	32.2
1991	183.2	\$ 1189.4	32.5
1992	238.9	\$ 1289.4	36.5
1993	249.8	\$ 1444.0	36.5
1994	323.1	\$ 1631.0	33.3
1995	344.1	\$ 1779.3	33.3
1996	240.3	\$ 1756.9	32.0
1997	185.8	\$ 1677.1	32.0

* in thousands

** in millions

FY 1986-FY 1988 FTE positions are estimates.

FY 1996 FTE positions are requested.

FY 1997 FTE positions are projected.

Of the 19.0 FTE positions that have dual responsibilities (State and Stafford), the CSAC estimates that the total time would equal 14.1 FTE positions dedicated to the Stafford Loan Program duties and 4.9 FTE positions dedicated to the State programs. **Table 2** illustrates the possible reduction in FTE positions calculated by the Legislative Fiscal Bureau, given the current loan volume per FTE position. The CSAC could reduce the number of FTE positions for the Stafford Loan Program by 4.3 FTE positions in FY 1996, and 7.5 FTE positions by FY 1997. However, the CSAC has requested a reduction of only 1.3 FTE positions for FY 1996 for the Stafford Loan Program.

Table 2
Volume per Position and Projected FTEs Needed

Fiscal Year	Loan Volume*	Actual FTE positions	Volume per position*	Projected FTEs needed	Outstanding Loans**	Actual FTE positions	Volume per position**	Projected FTEs needed
1995	344.1	14.1	24.4		1779.3	19.0	93.6	
1996	240.3	14.1	17.0	9.8	1756.9	19.0	92.5	19.0
1997	185.8	14.1	13.2	7.6	1677.1	19.0	88.3	18.0

* in thousands

** in millions

FY 1996 FTE positions are requested.

FY 1997 FTE positions are projected.

The projected FTE positions needed is based upon using the most recent year for volume per position (FY 1995 at 24,400 per FTE position) and dividing that into the projected loan volume. For the outstanding loan component, the FY 1995 data is again used with \$93.6 million per FTE position. This would assume that the volume per position and loan amount per position would remain constant, based upon those with the most experience and presumed most efficient would retain the FTE positions. These positions also perform reporting activities not necessarily dependent upon loan volume, yet mandated by federal standards.

Reserve Fund Balance and Uses. The Stafford Loan Reserve Fund is retained at the State level. The Fund is maintained to guarantee the student loans and is used to operate the Stafford Loan Program. The FY 1994 Reserve Fund balance was \$36.8 million with deferred revenues of \$8.1 million for a total Reserve Fund balance of \$44.9 million. The FY 1995 appropriation from this Fund was \$4.8 million. The projected interest earnings for FY 1995 are \$2.1 million. Projected revenues to the Fund for FY 1995 are \$45.0 million, leaving an expected ending balance for FY 1995 of \$46.0 million.

Use of the Stafford Loan Reserve Fund is regulated by federal statute. Typical use includes the administration of the Program, payment of default claims, investments in low-risk securities, and other investments if the Fund is repaid with income from the investments. In 1988, the Iowa Stafford Loan Reserve Fund was penalized for exceeding the amount of Reserve on hand, and as a result, lost \$9.5 million in revenues from the federal government for program operations. The current amount of reserve again exceeds the amount determined appropriate by the federal government. The federal Department of Education limits the reserve at 2.0% of outstanding loans. By comparison, the Iowa Reserve Fund had 2.56% of actual outstanding loans in reserve for FY 1994.

The CSAC has maintained that all monies in the fund are the property of the federal government as a result of previous court action determining ownership of the Reserve Fund. However, according to the CSAC, 5.2% of the monies deposited in the Fund in FY 1994 resulted from loan generation fees paid by students (or the insurance premium). Using this percentage, \$2.3 million of reserve revenues was a result of student monies and not federal monies.

The Iowa General Assembly, for FY 1992 and 1994, authorized the State Treasurer to invest monies available from State agencies in specified investments. In both instances, the Governor vetoed the language. The language would have allowed the State to utilize the Stafford Loan Reserve Fund for capital projects and return revenues earned from the projects to the Reserve Fund.

Consultant Report. The CSAC employed the consulting firm Deloitte and Touche to provide possible strategies to consider as a result of the change from the Stafford Loan Program to the direct loan program. The study provides the following options:

- Not to withdraw from the Program at this time.
- To ensure access to the Stafford Loan Program as long as necessary for all students and be prepared for FY 1999 for total elimination of the Program.
- To explore "outsourcing" opportunities and avoid fixed asset investments. This would include contracting for additional services outside the CSAC, other than those currently contracted.
- Pursue consolidation with other industry participants to provide services to Iowa students.

- Expansion of services not related to the Stafford Loan Program, such as acting as a servicer for private funds distributed for educational scholarships and grants, enhancing the existing outreach programs, and acting as an information clearinghouse utilizing the Iowa Communications Network.

The study indicates that cooperation of the Governor, the federal Department of Education, schools, lenders, students, and the CSAC will be necessary for the transition. The Chairperson of the CSAC requested that Deloitte and Touche add the General Assembly to the role of transition. A copy of the entire study is available upon request.

State FTE Position Funding. As indicated previously, the FTE positions utilized to operate the State-funded programs in the CSAC are not totally funded by State monies. For FY 1996, the CSAC has requested an additional \$65,698 from the General Fund to fully fund 7.1 FTE positions entirely with State monies. The CSAC assumes that 4.9 FTE positions of those funded with Stafford Loan monies will be necessary to operate the existing State programs in the future at an additional cost to the General Fund of \$300,000 annually over the period of the phase-out of the Stafford Loan Program and beyond.

The FY 1996 total administrative budget requested by the CSAC is \$372,107. This is equal to \$52,409 per FTE position. The additional \$300,000 requested to cover funding for the 4.9 FTE positions equals \$61,224 per additional FTE position.

The CSAC is also actively pursuing outside funding for a portion of the projected administrative cost increase including an application of a grant for the National Early Intervention Scholarship Program, that would provide \$45,000. Other possibilities exist for additional funding.

Organizational Structure. During the 1986 General Assembly, the reorganization of State government resulted in the CSAC becoming part of the Department of Education. Section 261.3, Code of Iowa, specifies that "The (College Student Aid) Commission is an autonomous state agency which is attached to the Department of Education for organizational purposes only." This is similar to the organizational relationship between Iowa Public Television and the Department of Education, except that Iowa Public Television is a separate division within the chapter of the Department of Education as opposed to a separate chapter as is the CSAC.

Action by Other States. Not every state has a guarantee agency acting on behalf of the federal government for the Stafford Loan Program. The Iowa CSAC serves students that are not residing in Iowa for the Program. One state that is considering withdrawing from the Program rapidly is Maryland. Larger states are considering consolidation with other Programs to have enough student loans remaining in the Stafford Loan Programs during the phase-out period. Most states are in the review process and have not taken any action.

Possible Changes at the Federal Level. The 1995 Congress is scheduled to debate the 1994 Reauthorization of the 1968 Higher Education Act for several reasons. One reason is the concern regarding the changes in the loan programs. Possible Congressional action may **include slowing the phase-out period, providing for some role of the local guarantee agency (CSAC in Iowa) as the administrative entity, or returning to the manner in which the Stafford Loan Program operated prior to the federal changes.**

ALTERNATIVES

The following alternatives are available for review:

1. The General Assembly could review the alternatives provided by the Deloitte and Touche study for continuation, outside contracting, consolidation, or expansion of services provided by the CSAC to determine the manner in which the CSAC would exist in the future.
2. The General Assembly will need to determine the appropriate number of FTE positions for the operations of the State programs by the CSAC based upon the action taken regarding the role of the CSAC for the future.
3. The elimination of 33.27 FTE positions from the operation of the Stafford Loan Program portion of the CSAC, and the possible adjustment to the number of State-funded FTE positions may provide for the continued separation from the State Department of Education for organizational purposes, for possible consolidation with an existing State department, or for reorganization of educational-related entities existing in State government.
4. The General Assembly could review the use of the Reserve Funds for capital projects or other areas of interest.
5. The General Assembly could mandate the sale of the loan portfolio and eliminate the role and positions related to the Stafford Loan Program without a phase-out.

BUDGET IMPACT

1. The cost of the FTE positions currently used in total for the State-funded programs to be all State monies is an additional \$65,698 for FY 1996.
2. The projected cost by the CSAC to convert FTE positions used in part for the State-funded programs to be fully paid by State monies is an additional \$300,000 per year to be phased-in over the phase-out of the Stafford Loan Program.
3. The estimate may be altered based upon decisions made by the federal government regarding the phase-out of the Stafford Loan Program, the determination by the General Assembly regarding the duties of the CSAC in the future, and the determination by the General Assembly regarding the organizational structure of the CSAC.

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