

2006. As a result, banks and other federal loan lenders have begun to scale back borrower discounts which were supported by these government subsidies. A growing number of lenders have suspended or terminated their participation in the federal student loan program as well as tightened their credit criteria for private student loans.

With some 3000+ large, median and small profit and non-profit lenders competing for borrowers, competition spawned cost reducing borrower benefits for Stafford, PLUS and federal consolidation loans. These borrower benefits typically included interest-rate reductions for a certain number of on-time payments and/or automatic debit payments and rebates.

As a result of the subsidy cuts, many student-loan lenders are cutting or eliminating borrower discounts on new federal loans which in turn will raise the student's cost of paying for her/his education.

In an October 2, 2007 Wall Street Journal article it was reported that, "several lenders, including Wells Fargo & Co., Nelnet Inc. and Goal Financial LLC, eliminated many of their borrower benefits on new federal loans. Nelnet also reinstated origination and default fees on its Stafford loans, which were previously waived, of as much as 2.5%." Other lenders are still evaluating their programs and more changes are anticipated with a few who are in position to hold the loans on their books are looking to expand their student loan participation. Since the subsidy cuts were not as drastic for non-profit lenders borrowers may be able to find loans with discounts. However, do not assume that just simply being a non-profit guarantees good benefits. Recent two state student loan agencies, have suspended or curtailed their participation in the federal or private student loan program.

The biggest cuts are being made in federal consolidation loans which typically have the slimmest profit margins. For example, as reported by the Wall Street Journal, Sallie Mae and Citibank, now only allow borrowers to get a 0.25 percentage

point rate reduction on consolidation loans for enrolling in automatic payments. Previously, the lenders also offered a one percentage point rate reduction after the first 36 months of on-time payments. College Loan Corporation, is no longer offering any repayment benefits on its federal consolidation loans.

Most of the best borrower benefit programs such as reduction in loan rates for automatic and on-time benefits and rebates, were offered by private companies. Some lenders might now maintain some of their discounts on PLUS or Stafford loans, but it will likely be harder for borrowers to qualify for and maintain discounts. Borrowers with larger balances may get more of a break. The changes may also force schools with preferred-lender lists to re-examine their lists if the changes significantly affect borrowers' costs or eliminate preferred-lender list altogether; which places added responsibility and stress on the borrower.

The cost of borrowing for education for many if not all will now become more expensive. There will most likely be greater uniformity of discounts among lenders. Students and families will now be much more likely to pay the full cost of federal loans. As such, borrowers will need to make their choice of lender on more criteria than advertised low rates. Informed borrowers must now carefully assess and evaluate other important satisfaction criteria such as customer service, knowledge of the counselors, financial strength, experience, leadership, reputation, dispute/question resolution and understanding and accommodation of the unique characteristics of the borrower's profession. No amount of incentives are worth it if you cannot readily communicate and deal with the lender/servicer. **Choose a lender who has experience, expertise and a valued reputation among your colleagues and peers and will treat you as a valued customer.** Above all else, when borrowing student loans realize that you must keep "affordability" in mind because the student financial aid process is

based upon financial "need" and not an assessment of your ability to afford repayment as all other borrowing situations require.

Pros & Cons of the College Cost Reduction and Access Act of 2007

Pros of the new law:

- Increases the maximum Pell Grant amounts for low-income families
- Phased reduction in interest rates on **subsidized** Stafford loans **for undergraduate students only** (6.8% currently; 6% on 7/2008; 5.6% on 7/2009; 4.5% on 7/2010; 3.4% on 7/2011; reverting back to 6.8% on 7/2012).
- Introduces a Loan Forgiveness for Public Service Program
- Introduces an Income Based Payment Plan for Direct loan consolidation borrowers.



Cons of the new law:

- Reduction in government subsidies to lenders which reduces or eliminates borrower benefits for federal student loans and consolidation from private lender, thus raising student repayment costs.
- Under existing law, borrowers pay **no** interest on subsidized Stafford loans during authorized in-school, deferment or grace periods. The federal government pays interest on subsidized Stafford loans until repayment begins. Thus a phased rate reduction for undergraduate subsidized Stafford loans have minimum impact on lowering the cost of education.

- Medical school students are ineligible for the interest rate reductions on “subsidized loans” as provided for in the College Cost Reduction and Access Act.
- The Loan Forgiveness for Public Service Program* is only available for Direct loan borrowers.
- The Income Based Payment Plan is only available for Direct loan consolidation borrowers.
- The enactment of the College Cost Reduction and Access Act of 2007 had an adverse impact on loan repayment for resident physicians. Effective October 1, 2007 the Act eliminated the “20/220” rule—a regulation that had enabled many resident physicians to qualify for economic hardship deferment and defer payment for three years without accruing interest on subsidized. Residents qualified if their debt burden was greater than 20 percent of their income, and if their income minus their debt burden was not greater than 220 percent of the federal poverty level.
- Under the new program, loan repayments would be capped at 15% of the borrower’s income that is above 150% of the federal poverty level. The new program was not to begin until July 1, 2009 unfairly leaving residents without a valuable cost effective debt management deferment option at a time when they are least able to manage monthly payments on their education loans.
- On November 1, 2007 under encouragement from several associations the Department of Education in issuing final rules left the 20/220 rule alone, which essentially allows it to persist until the next rule-making session thus eliminating an economic hardship deferment void that does not contradict the new law.
- This stealth political action momentarily allows medical residents to continue to defer loan payments during their initial residency years. However, this extension is a temporary fix because the new law eliminates



the 20/220 rule and the Congress will have to revisit this issue next year in the next rule-making session.

*Loan Forgiveness for Public Service – borrowers spending 10+ years in public service professions and make income based payments through the Direct Loan program would be eligible to have remaining loan balances forgiven after ten years. H.R. 2669 defines a “public service job” as “(i) a full-time job in emergency management, government, military service, public safety, law enforcement, public health, public education (including early childhood education), social work in a public child or family service agency, public interest law services (including prosecution or public defense or legal advocacy in low-income communities at a nonprofit organization), public child care, public service for individuals with disabilities, public service for the elderly, public library sciences, school-based library sciences and other school-based services, or at an organization that is described in section 501(c)(3) of the Internal Revenue Code of 1986 and exempt from taxation under section 501 (a) of such Code; or (ii) teaching as a full-time faculty member at a Tribal College or University as defined in section 316(b) [of the Higher Education Act] and other faculty teaching in high-needs areas, as determined by the Secretary [of Education].”



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Guide to Understanding the Impact of the College Cost Reduction and Access Act of 2007

Recently U.S. Department of Education Secretary Spellings wrote in a letter to college and lending officials, *“I urge you to act now to assure students and parents that we have their best interests at heart in providing competitive student loans.”*

In light of the recent passage of the College Cost Reduction and Access Act of 2007 signed by President Bush on September 27, 2007, if student borrowers are to assure that their **best interest are protected then students must be accountable and take responsibility for their borrowing and loan choices by educating themselves about student loans and money and debt management.**



Students should not and must not depend upon others to protect their “education borrowing” best interests.

Effective October 1st, the College Cost Reduction and Access Act will cut payments to federal loan lenders by \$21 billion over five years. This cut is in addition to a \$22 billion cut in subsidies to lenders enacted in