

**PHEAA Appropriations Hearing
Testimony of James Preston
President & CEO, PHEAA
February 13, 2014**

Mr. Chairman, members of the Committee and staff - on behalf of our Board of Directors, PHEAA's more than 3,000 employees working at five facilities located throughout the Commonwealth, and the millions of students and families that we serve, I want to express our appreciation for this opportunity to provide testimony as you prepare the Commonwealth of Pennsylvania's 2014-15 budget.

PHEAA, which was created as an independent agency by the Pennsylvania General Assembly more than 50 years ago - and guided by a bipartisan board of directors - has evolved into a highly-effective, self-sufficient public servant in support of this Legislature, postsecondary schools and Pennsylvania students and families.

Highlights

PHEAA administers several state-funded student aid programs, including the Pennsylvania State Grant Program. Since this Program began in 1965, we have disbursed more than \$9 billion in grant awards to more than 2.4 million Pennsylvania students with financial need.

To help support the administration of student aid programs in the Commonwealth, PHEAA has developed several successful business lines - all of which are closely aligned with our public service mission and provide significant value to your constituents.

As a federally-designated student loan guarantor, PHEAA has guaranteed more than \$109 billion in federal loans for 19 million students since we began this activity on behalf of the federal government in 1964.

As part of our responsibilities as a federal student loan guarantor - and in keeping with our public service mission in Pennsylvania - we work closely with borrowers to help them maintain good repayment practices and to avoid delinquency and default.

In the event that a borrower does default, we do everything we can to help them rehabilitate their loans back into good standing - which saves taxpayer dollars and clears the borrower's negative credit rating while helping to put them back on the path toward financial stability.

Since 1995, when the federal government first allowed defaulted student loans to be rehabilitated, we have successfully restored defaulted loans to good standing for more than 170,000 borrowers, which has saved federal taxpayers more than \$2.9 billion.

As a student loan servicer since 1972, PHEAA currently manages more than \$275 billion in student loans for more than 12 million borrowers in Pennsylvania and throughout the nation.

Our success as a guarantor and servicer allows us to self-fund our operations and many public services for the Commonwealth.

As a self-sufficient organization, PHEAA saves tax dollars, preserving them to be used elsewhere at the discretion of the General Assembly while also generating earnings to fund student aid programs and services for the Commonwealth.

PHEAA is not only self-sufficient, but we are also an earning asset for the Commonwealth, generating millions of dollars for public service funding each year.

PHEAA's direct financial support to the Commonwealth has exceeded \$1 billion over the years, including \$90 million that is being used in the current fiscal year to supplement student aid programs, such as the State Grant Program.

PHEAA remains dedicated to building upon our successes for the benefit of the Commonwealth while reaffirming our commitment to Pennsylvania as a public servant.

Federal Guarantor

As you may recall, Congress mandated that, beginning in July of 2010, all new federal student loans be made through the Federal Direct Student Loan Program, which began the wind-down of the Federal Family Education Loan Program (FFELP).

As a student loan guarantor, PHEAA currently manages FFELP loans for approximately two million borrowers with a total portfolio balance of more than \$36.5 billion. We expect this number to fluctuate as borrowers pay off their loans.

Additionally, at the request of the U.S. Department of Education, PHEAA bid on and won the transfer of the Georgia Higher Education Assistance Corporation's (GHEAC) portfolio, totaling approximately \$717 million in loans for 82,400 borrowers. This transfer was completed during 2013.

FedLoan Servicing

PHEAA continues to service federal student loans for the U.S. Department of Education as FedLoan Servicing. As with the other servicers contracted to service federal student loans, our allocation of loan volume is based on closely-monitored, borrower-focused performance criteria. In other words, our loan volume can only grow as well as we perform.

I am pleased to report that our federal student loan portfolio has grown from \$140.9 billion for 6 million borrowers at the beginning of the fiscal year to \$172.8 billion for 6.8 million borrowers today (as of January 21, 2014). We estimate that our portfolio will exceed \$177 billion for 6.9 million borrowers by the end of this fiscal year.

In 2011-12, PHEAA was selected by the U.S. Department of Education as the sole servicer for borrowers who participate in the federal Public Service Loan Forgiveness (PSLF) Program. Today, we have approximately 80,000 participants who are on track toward student loan forgiveness by working in public service careers such as law enforcement, nursing, teaching, and social work.

In 2012-13, PHEAA was selected by U.S. Department of Education to administer the federal Teacher Education Assistance for College and Higher Education Grant (TEACH). This program encourages students to enroll in curriculums that are necessary to become a teacher who serves low-income students in high need fields of study. The program provides grants of up to \$4,000 to help them afford their tuition. We are currently assisting approximately 67,000 participants in the Program.

American Education Services

PHEAA also services student loans commercially as American Education Services (AES), which currently helps 2.7 million borrowers manage a total of \$56.6 billion in student loans on behalf of lending institutions throughout the nation.

In total, PHEAA's servicing staff process more than 65 million borrower inquiries each year – including phone calls, emails, and other correspondence.

To help keep pace with the customer service demands of our operational growth, PHEAA opened a new customer service call center facility in Allegheny County last October. This new facility is creating 150 jobs, while helping us to provide industry-leading customer service through the hard work of highly-trained PHEAA employees from southwest Pennsylvania.

PHEAA now operates four call center facilities – with locations in Allegheny, Centre, Cumberland and Delaware Counties - in addition to our Headquarters Building in Harrisburg.

These facilities, their locations and their employees provide us with the workforce capacity, geographic diversity and operational redundancy needed to operate at peak efficiency.

State Programs

As I mentioned previously, our business operations, while fully-aligned with our mission of creating access to higher education, also support the administration of state-funded student aid programs and PHEAA's entire administrative operating budget.

This saves taxpayers millions of dollars each year while ensuring that every dollar that is appropriated to a Pennsylvania student aid program goes directly to our students.

PHEAA's largest appropriation is for the need-based Pennsylvania State Grant Program, which is providing grant awards to 179,500 Pennsylvania students in the current award year.

In order to help make grant awards more meaningful to those students, PHEAA provided a \$75 million supplement to the Commonwealth's \$344.9 million State Grant appropriation.

This supplement was funded from our business earnings, and is in addition to the more than \$13 million that we invest annually to cover the administrative costs of student aid programs and to provide public service outreach at no cost to taxpayers.

Our supplement, combined with the Commonwealth's appropriation, helped provide a 2013-14 maximum State Grant award of \$4,363 to Pennsylvania students with financial need.

A maximum grant award in the current award year covered approximately 16.6 percent of the cost of tuition and fees for a typical Pennsylvania college student across all higher education sectors.

For 2014-15, Governor Corbett has called for level funding across PHEAA's appropriations. Additionally, he is asking PHEAA to provide a total of \$85 million to supplement the Grant Program, including the Distance Education Pilot Program.

As always, PHEAA appreciates and respects the Governor's request and strives to support the Commonwealth in any way that we can. However, our ability to provide supplemental funding remains contingent upon having sufficient financial resources available that are above and beyond our operating expenses. Any proposed allocation of PHEAA's financial resources is also subject to the Board's review and approval, which would most likely be addressed at the June 2014 Board Meeting.

One aspect of the State Grant Program that has become of particular interest to many is the manner in which the program's guidelines address the eligibility of distance education. Currently, these guidelines exclude students who take more than 50 percent of their coursework online or who are enrolled in programs of study that are structured to be more than 50 percent online from receiving grant awards.

Regardless, distance education is an effective delivery tool for higher education in the Commonwealth. It offers great flexibility to many students and continues to experience tremendous growth.

To address this most thoroughly, PHEAA pursued a number of initiatives over the past few years to better understand distance education, including:

- The establishment of a Distance Education Study Group comprised of higher education professionals from throughout Pennsylvania
- Meetings with schools currently offering distance education for real-world analysis of student engagement
- Surveys of distance education courses being offered by the Commonwealth's postsecondary schools

The result of this work was a proposed Distance Education Pilot Program that was formalized by legislation on July 9, 2013, directing PHEAA to undertake a 5-year pilot program beginning in the current year. Under this Pilot Program, students are able to retain their state grant eligibility while taking any online programs or courses at participating institutions.

To preserve taxpayer resources while ensuring that the pilot program does not dilute the limited funding available through the Grant program, PHEAA's board approved \$10 million from agency resources to fund the first year of this program.

All Pennsylvania-based State Grant-eligible schools are able to participate. However, participation is voluntary and schools must nominate their eligible student for participation.

The Pilot Program, while providing immediate relief for participating students, also enables PHEAA to collect data which can be used to make recommendations regarding long-term policy changes to the Grant Program.

55 schools (77 including branch campuses) and 3,314 students are currently participating in the Pilot Program as of January 21, 2014.

In this year's budget proposal, the Governor called on PHEAA to administer a new, state-funded \$25 million "Ready to Succeed Scholarships" program that intends to make college more affordable for students from middle-income families.

The proposed program is to be both merit and income-based. As we learn more about this proposal, we will be in a better position to determine how to best administer the program on behalf of the Commonwealth, should it be enacted.

In 2012-13, Governor Corbett called for the creation of the Pennsylvania Targeted Industry Program - PA-TIP - that provides grant awards to students interested in working in the energy, advanced materials and diversified manufacturing, or agriculture and food production fields.

This program is currently funded with \$5 million from PHEAA's business earning and provides need-based grant awards up to the equivalent of the maximum State Grant award - currently \$4,363.

Eligible courses of study must be more than 10 weeks in length and less than two academic years in length.

Currently, PA-TIP is providing awards to more than 1,150 Pennsylvania students, with an average award of \$3,211.

For 2014-15, the Governor has asked that PHEAA increase funding for the program to \$6 million; an increase of \$1 million.

Another relatively large student aid program administered by PHEAA is the Institutional Assistance Grant (IAG) Program, for which the Governor has proposed level funding at \$24.4 million.

The IAG Program was created by the General Assembly in 1974 and provides formula-based grants - tied to the number of State Grant recipients enrolled at the school - to help independent, nonprofit colleges and universities maintain enrollment levels and stabilize costs.

There are currently 88 institutions participating in IAG, which are specified in the authorizing legislation.

Based on current projections, we estimate that the per capita IAG award for 2014-15 will be approximately \$511.

Additionally, the Education of the Disadvantaged Program, more commonly known as the Act 101 Program, provides support services to academically and educationally at-risk students. The latest annual report on the accomplishments of the Act 101 Program is impressive in the student success stories at the 35 school programs.

Public Services

In addition to supporting student aid programs for the Commonwealth, PHEAA invests its resources into the development of student aid planning and application tools, community outreach events, and other awareness initiatives that can assist your constituents during every step of their higher education experience.

For example, 12 Higher Education Access Partners and two managers are strategically-located throughout the Commonwealth. These experienced student aid experts conduct community financial aid events, promote our career-and college-planning websites and promote awareness of state and federal grants.

They also work specifically with lower-income students and high schools with low college attendance rates – all while strengthening and leveraging relationships with community and government organizations to create greater awareness of the importance of higher education.

During the 2012-13, our Higher Education Access Partners conducted more than 1,000 financial aid, FASFA completion and early awareness events for more than 90,000 participants. They also hosted 59 training workshops for high school counselors and community organizations and conducted 410 visits to Pennsylvania high schools, postsecondary schools and other organizations.

By working with students, families and schools in the community, our Access Partners provide a personal, hands-on complement to the many free online tools and resources that we make available.

These include EducationPlanner.org, our award-winning career and college-planning website, YouCanDealWithIt.com, our debt management resource for graduates and soon-to-be graduates, and of course, PHEAA.org, which is Pennsylvania's go-to website for student aid information and applications.

PHEAA.org also features Pennsylvania's interactive Student Aid Guide and a wealth of information on state and federal student aid programs, as well as links to applications and other resources that simplify the higher education planning process.

MySmartBorrowing.org

One issue of growing concern for PHEAA, and for many members of this committee, is the trend for college graduates to leave school with increasingly higher levels of student loan debt. For example, a 2012 Pennsylvania 4-year college graduate who borrowed money for school had a record high average loan debt of \$31,675. This is the third highest in the nation.

PHEAA has consistently advocated for students and families to avoid unnecessary loan debt and has been leading this conversation in Pennsylvania with extensive community outreach and other resources.

Despite these efforts, it seemed that more and more student borrowers were only becoming aware of their heavy debt burden post-graduation - - and after the financial realities of the real world had set in. But by that time, it is often too late.

To help reverse this troubling trend, PHEAA recently launched its newest and most functional student debt awareness and college planning initiative – MySmartBorrowing.org.

This new tool engages high school students and their families early in the planning process, helping them to make smart choices at each of the most important decision points as they develop their higher education success plan.

In addition to useful information, MySmartBorrowing.org provides unique estimators that help determine a student’s possible higher education costs at different schools, future salary expectations for a particular degree, availability of related employment opportunities, and their potential ability to repay student loans comfortably while also affording an independent lifestyle after graduation.

Since its launch in the fall of 2013, thousands of students have accessed MySmartBorrowing to help them make more informed and cost-effective college-planning decisions. We encourage you to share this tool with your constituents. We believe that it can help make all the difference toward achieving an easily manageable higher education funding experience.

Closing

In closing, I also want to remind you that our Access Partners are always available to personally assist you in providing student aid and higher education planning outreach to your constituents in your districts.

Of the more than 1,000 community events, such as FAFSA Completion Sessions, that our Access Partners participated in last year, many were done in cooperation with local legislators.

This is a valuable opportunity for us to work with you to directly support the needs of your college-bound constituents and their families. We hope that you will take advantage of the services that we offer to you and your communities.

This concludes my remarks. I want to thank you again for the opportunity to appear here today. I welcome the opportunity to answer your questions.

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