

STATEMENT OF NEED AND REASONABLENESS

MINNESOTA HIGHER EDUCATION COORDINATING BOARD

In the Matter of the Proposed Adoption of the Rule of the  
Minnesota Higher Education Coordinating Board  
Governing Definitions for Higher Education Programs,  
Scholarship and Grants-in-Aids,  
Part-Time Grants,  
Work-Study Grants,  
Dislocated Rural Worker Assistance, and  
Student Educational Loan Fund.

April 4, 1988

## DEFINITIONS FOR HIGHER EDUCATION PROGRAMS

4830.0100 - subp. 3, 9.

These subparts, and all other references to "dependent" and "independent student" were deleted due to statutory changes whereby the terms of dependency will have the meaning given them in federal legislation (Higher Education Act of 1965, United States Code, title 20, section 1070a-6).

4830.0400 - subp. 2, 3.

Changes proposed to this subpart are also due to the statutorily mandated change to the definition of student dependency, whereby the terms "dependent" and "independent student" will have the meaning given them in federal legislation (Higher Education Act of 1965, United States Code, title 20, section 1070a-6).

4830.0600 - subp. 1.

Changes proposed to this subpart are also due to the statutorily mandated change to the definition of student dependency, whereby the terms "dependent" and "independent student" will have the meaning given them in federal legislation (Higher Education Act of 1965, United States Code, title 20, section 1070a-6).

4830.0700 - subp. 2.

This part needs to be updated to reflect statutory changes, i.e., full-time student status is no longer applicable. Enrollment status varies from program to program. Each program in the agency rules specifies what its enrollment requirements are for participation.

## PART-TIME GRANTS

4830.1552 - Subp. 1.

The allocation formula was changed to include a "usage percentage." This would allow the Higher Education Coordinating Board to better distribute funds to schools that actually use the funds, based on the prior year's use.

This change is reasonable because it would allow better distribution of funds to those institutions that need the funds. It would encourage schools not using the monies to refund them before the deadline date so their utilization percentage would not be adversely affected the following year. Currently, schools may hold on to funds until it is too late to reallocate to schools needing additional funds.

Concerning page 5, lines 25-26, the utilization percentage is not applied in allocating the remaining 10 percent of the program funds, because in order to apply for the remaining 10 percent the school must already have used all of its original allocation. To apply the utilization percentage in allocating the remaining 10 percent would penalize the school that has used its original allocation.

4830.1555.

A deadline date was added for institutions to submit final reports and unused funds. This would allow the Higher Education Coordinating Board to complete reconciliation of funds for the fiscal year, and to prepare required reports to the legislature.

#### **DISLOCATED RURAL WORKER ASSISTANCE PROGRAM**

This program has been operating under emergency rule. The Higher Education Coordinating Board is proposing to make this rule permanent. There are no changes suggested between emergency and permanent rule.

This program was started in 1986 when the legislature provided the authority for the Board to create the program. Funds were originally taken from the State Scholarships and Grants-in-Aid Program. In addition, funds were allocated to rural public post-secondary institutions based on the number of students enrolled from economically distressed counties, as designated by the Department of Energy and Economic Development. The original mandate did not include rulemaking authority.

In 1987, the legislature created in statute an autonomous program for Dislocated Rural Workers, and a total of \$500,000 was allocated for the 1987-89 biennium. The mandate included a definition of eligible institutions and eligible applicants.

4830.1561.

"Eligible schools" is defined in the legislative mandate, and includes those schools eligible for the Scholarships and Grants-in-Aid program (4830.0300).

4830.1562 - Subp. 1.

This section describes the allocation formula. The formula limits the school's allocation to a count of students from the school's home county and contiguous counties. The intent of the program is to serve people from rural areas who have lost their jobs, therefore, the assumption was made that they would attend schools close to home. Since the seven-county metropolitan area is not considered rural, students from these counties cannot be counted in determining the school's share.

A decision was made to not give a school an allocation of \$500 or less because

an average award per student was expected to be larger than \$500.

4830.1562 - Subp. 2, Subp. 3 and Subp. 4.

These are standard procedures used by the Higher Education Coordinating Board concerning notification of allocation to schools; accountability of schools for money disbursed to it; and reports and return of unused funds.

4830.1563 - Subp. 1.

This section describes student eligibility. These criteria are inferred or specified in the statute. Students must meet some of the same requirements as the Scholarships and Grants-in-Aid Program: must be a resident of Minnesota; qualify for resident tuition other than through a tuition reciprocity agreement; is in good standing and making satisfactory progress as determined by the school; and, is a permanent resident of the United States if not a United States citizen. (The legislation indicates that the student must meet the financial need criteria established by the Board.)

In addition, the statute requires that the applicant be enrolled in an adult farm management program, or an occupational training program; the applicant must have applied for all other financial aid; and demonstrate that one of the following criteria apply: 1) applicant or spouse has been separated from employment or has received notice of separation; 2) applicant is a displaced homemaker; or 3) the applicant or spouse is a farmer who can demonstrate severe financial need.

The legislation also specifies that the student must be a resident of rural Minnesota. This is taken into account by the language eliminating students residing in the seven-county metropolitan area.

4830.1563 - Subp. 2.

This subpart defines "severe household financial need." The Higher Education Coordinating Board has chosen to use the most current table of the standard maintenance allowance, as defined by the American College Testing Program, in its publication entitled "Handbook for Financial Aid Administrators." This table was chosen because financial aid officers are familiar with it and use it for other campus-based programs. The table is recognized as a standard in the financial aid community, and it is updated annually based on data from the Bureau of Labor Statistics. This table is incorporated by reference, as it is updated yearly. All financial aid offices in all post-secondary schools receive this publication yearly. The Board also has requested that a copy be sent annually to the Legislative Reference Library and the Department of Education library (which are connected to the Minitex interlibrary loan system).

4830.1564 - Subp. 1.

This is a standard procedure used by the Higher Education Coordinating Board concerning campus-based programs. That is, calculations are made by the school

to determine an individual student's award.

4830.1564 - Subp. 2.

This is a standard procedure used by the Higher Education Coordinating Board concerning campus-based programs, i.e., the school's financial aid officer reviews the student application and makes a determination of an award, if any, according to guidelines in rule and to campus policy.

4830.1564 - Subp. 3.

This is identical to the direct educational cost allowed for the Scholarships and Grants-in-Aid Program with the exception that "E. other expenses allowed by the school" has been added. This was added in order to be consistent with other campus-based programs.

4830.1565.

This is a standard requirement of the Higher Education Coordinating Board of all schools participating in financial aid programs. Data must be collected and reported to the Legislature annually.

#### **WORK STUDY PROGRAM**

4830.2600.

A deadline date was added for institutions to submit final reports and unused funds. This would allow the Higher Education Coordinating Board to complete reconciliation of funds for the fiscal year and to prepare required reports to the legislature.

#### **STUDENT EDUCATIONAL LOAN PROGRAM (SELF)**

4850.0011 - Subp. 1.

Section C - This was added because the terms "academic year" and "loan period" are too often confused. The intent of this definition is to indicate that the term "loan period" is a subset of the term "academic year."

4850.0011. - Subp. 10.

References to "unemployment" and "retirement" are being deleted from the definition of a cosigner. Currently, there is no way of knowing this information unless the cosigner volunteers it; therefore, it is a useless requirement.

4850.0011 - Subp. 15.

Section D - The "SLS" (Supplemental Loan for Students) was added in order to update the terminology. The acronym has been changed from "ALAS" (Auxiliary Loan to Assist Students) to "SLS." Because the Higher Education Coordinating Board will continue to have borrowers with loans in the old ALAS program, it must retain reference to the program.

Section H - A clarification needs to be made that this particular description applies only to those students who receive their loan from the original bonds. Borrowers who receive loans from a new source of funding will not be restricted to graduation dates no later than November 1, 1992. Furthermore, clarifying that the specific graduation date applies only to the time of application, allows borrowers to continue to graduate school programs that may require them to graduate after November 1, 1992.

4850.0011 - Subp. 25.

Definitions of "loan period" (and "academic year") needed to be added in order to prohibit overlapping of loan periods. Currently, a student may advance a grade level within an academic year and be eligible to apply for additional amounts, therefore borrowing twice within one academic year. The problem arises when the student may have an overlapping loan period by borrowing for a quarter or semester already covered by the previous loan.

4850.0011 - Subp. 27.

This program was originally funded by the sale of bonds. In the future, it will be funded by sources other than bonds. The November 1, 2000, repayment deadline is in effect only for those who have loans made from the bonds. This deadline will not affect those who have loans from sources of money other than the bonds. Because there will be borrowers who will receive loans from both the bonds and new sources of money, it is necessary to qualify the definition of "payout period" by adding the proposed language. The addition of the word "shorter" is meant to clarify that students would not be allowed a longer period than the maximum 15 years already provided in rule.

4850.0014 - Subp. 1.

All specific references to annual and aggregate borrowing limits, and specific cumulative loan debt maximums are being deleted. These limits are now included in Minnesota statutes. By leaving the figures in the rule, staff would have to amend the rule whenever the statutes change.

Concerning page 11, lines 27-33, and page 12, lines 4-19: these are examples that assume the current annual borrowing limit set in statute.

4850.0014 - Subp. 2.

This section is being expanded in an attempt to allow students to borrow their remaining eligibility in the program within the same academic year. At present, if a student interrupts his or her loan period, say, for a medical reason, and

is not enrolled when the SELF check arrives, the check must be returned to the Higher Education Coordinating Board and cancelled, as well as any disbursements that may have been scheduled for that student for that loan. Furthermore, if the student returns to school within the loan period after convalescing, the student is no longer eligible to receive any disbursements even though he or she may have a legitimate need for the money. The proposed change would allow the student to reapply for any remaining eligibility within the same academic year (assuming it is for at least \$1,000) upon returning to school. Likewise, language is also being proposed that would not permit students or schools to overlap loan periods.

4850.0014 - Subp. 3.

This section needs to be amended in order to take into account sources of funds other than bonds. There will be an interest rate concerning the original bond issue, and an interest rate concerning sources other than bonds.

For loans made from sources other than the bonds, the interest rate on the loan will be determined by the Board at a margin in excess of the "index rate." The "index rate" will be the average rounded to the nearest quarter of one percent of the bond equivalent yield, for auctions of 13-week Treasury Bills, as published weekly in the Federal Reserve Statistical Release H.15 (519), during the preceding calendar quarter. If the "index rate" increases or decreases, the interest rate on the loan will automatically increase or decrease on the same day without notice to the borrower. At no time will the interest rate on the loan increase or decrease more than two percentage points over any four consecutive calendar quarters. The "margin" will be determined by the Board to reflect the costs of the SELF program. If the Board determines that the margin does not reflect the costs of the SELF program, the Board may increase or decrease the margin within limits of law. The Board shall advise borrowers of changes in the margin.

The proposed definition for determining interest rate follows the same methodology as the current definition, except that both the index and the margin are changed. The index is being changed from the cost of the bonds to the 13-week Treasury Bill because at some point in the future the bonds will be paid off and will no longer be part of the SELF program. With that prospect in mind, it was considered best to devise an index with more longevity, hence the 13-week Treasury Bill. It is also an index that can be monitored easily by checking the financial section of any national newspaper.

In devising a new method for arriving at an interest rate, the Board wanted to have a method that closely parallels the current method. The proposed interest rate is expected to be as attractive as the current rate. Since the 13-week Treasury Bill historically has a slightly higher cost than the cost of the current SELF bonds, the margin was proportionately lowered from the present 3.5 percent to 1.75 percent. The net effect is very similar.

The addition of a capped interest rate is being added to give consumers protection from rising interest rates that is currently not available in the program.

Although the rule does not detail the formula for determining the new interest

rate, it is specified in the Promissory Note that all applicants must sign.

(See ATTACHMENT for comparison of current and proposed interest rates.)

4850.0016 - Subp. 2.

This deletion is necessary if the changes to 4850.0014, subp. 2 are necessary. Under the proposed language, the student who transfers can simply cancel any remaining disbursements at the old school, and reapply for a new loan at the new eligible school.

4850.0017.

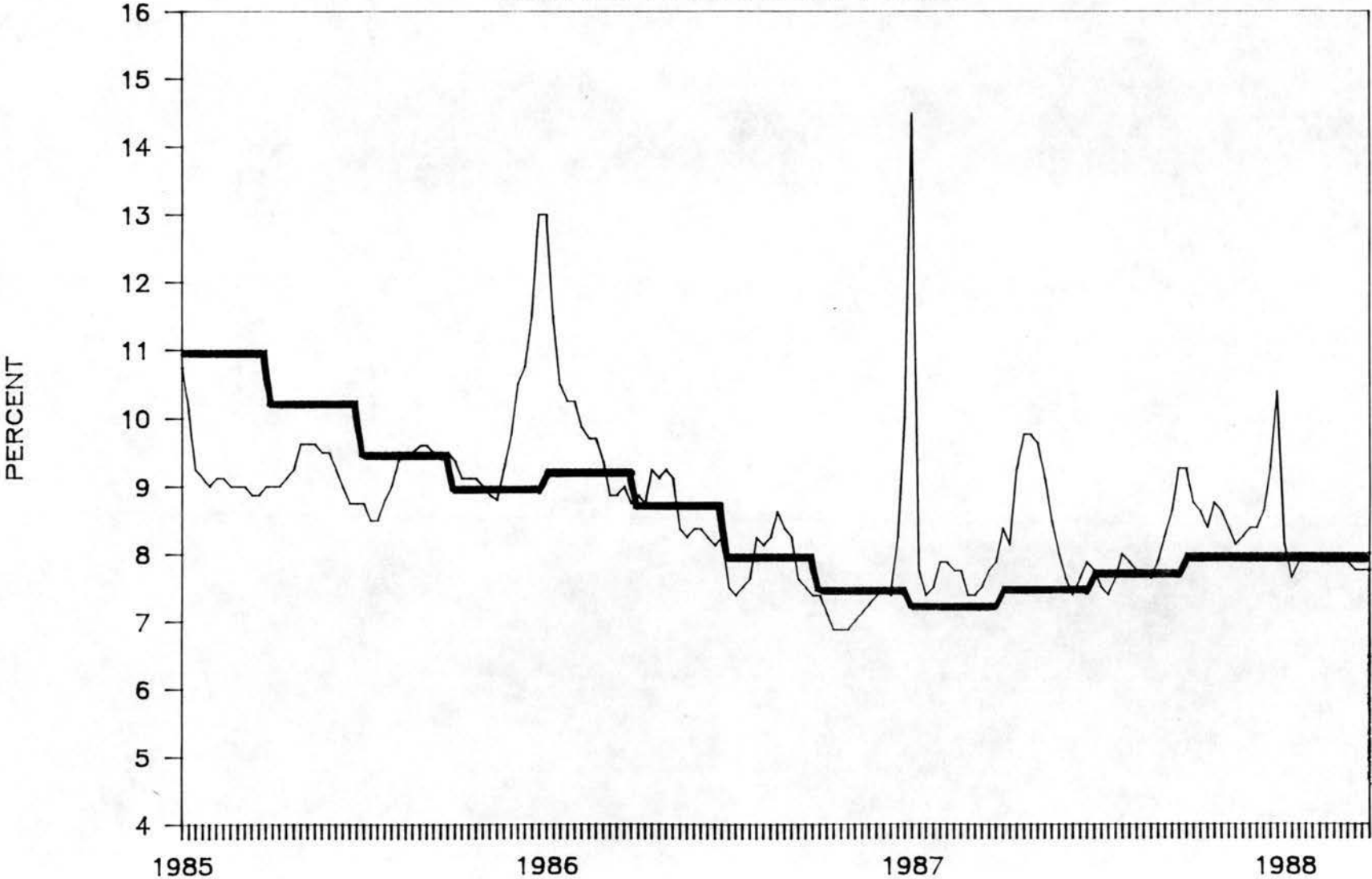
Eliminating the sentence "payments are due by the 15th day following the date of the billing" would allow more flexibility to bill a SELF borrower. Currently, the program's servicer is the Hemar Service Corporation of America (HSCA). The language deletion would allow them to bill borrowers in batches allowing each borrower at least 15 days to pay the bill. For example, if there are twenty borrowers to bill on April 11 (due on April 26), twenty borrowers to bill on April 8 (due on April 23), and twenty borrowers to bill on April 7 (due on April 22), HSCA could send bills to all sixty borrowers on April 7, showing a due date of April 26. This way, savings in servicing are achieved by billing all sixty borrowers on the same day and allowing each at least 15 days to pay their bill. The intention is not to shorten the time between the billing and the due dates, but rather to insure each borrower has at least fifteen days or more to pay.

Part C: The Board's loan servicer, HSCA, has informed the Board that it cannot perform the function of combining all SELF loans into a single repayment schedule because of computer software problems. Until the technical problem can be solved, the requirement should not appear in rule.



# SIMULATION OF SELF II RATES

COMPARED TO ACTUAL SELF I RATES



SELF II=QTRLY AVG 13 WEEK TBILL+1.75%

— SELF I

— SELF II

ATTACHMENT

In the Matter of the Proposed Adoption of the Rule of the Minnesota Higher Education Coordinating Board Governing Definitions for Higher Education Programs, Scholarship and Grants-in-Aids, Part-Time Grants, Work-Study Grants, Dislocated Rural Worker Assistance, and Student Educational Loan Fund.

AFFIDAVIT OF MAILING  
THE NOTICE OF  
INTENT TO ADOPT A  
RULE WITHOUT A PUBLIC  
HEARING AND CERTIFICATE OF  
MAILING LIST

STATE OF MINNESOTA     )  
  )ss.  
COUNTY OF RAMSEY     )

Rosemary Herrera Hamerlinck, being sworn says:

I hereby certify that the list of persons and associations who have requested, pursuant to Minnesota Statutes, sections 14.14, subdivision 1a and 14.22 or 14.30, that their names be placed on the Minnesota Higher Education Coordinating Board rulemaking mailing list is accurate, complete, and current as of this 31st day of March, 1988.

That on the 31st day of March, 1988, at the City of St. Paul, County of Ramsey, State of Minnesota, I mailed the attached Notice of Intent to Adopt a Rule Without a Public Hearing by depositing in the State of Minnesota Central Mail System for United States mailing, a copy thereof, with postage prepaid, to all persons and associations on the aforementioned mailing list.

Rosemary Herrera Hamerlinck  
(Name)

Planning Associate  
(Title)

Subscribed and sworn to before me  
this 10th day of April, 1988.

Judith A. Morgan

