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STATEMENT OF NEED AND REASONABLENESS

PERMANENT RULES RELATING TO FINANCIAL AID

as administered by

the Minnesota Higher Education Coordinating Board

In the Matter of the Proposed Adoption of Rules
Governing the Student Educational Loan Fund

STATE OF MINNESOTA
MINNESOTA HIGHER EDUCATION COORDINATING BOARD

In the Matter of the Proposed Rules Governing the Student Educational Loan Fund (Minn. Rules 4850.0011-4850.0017)

STATEMENT OF NEED AND REASONABLENESS

SECTION I: AUTHORITY TO PRESCRIBE RULES

The Minnesota Higher Education Coordinating Board is authorized by statute to adopt policies and prescribe rules and regulations for student financial aid programs. [Minnesota Statutes 1992, 136A.04, Subd. 1(8) and 136A.16, Subd. 2]

The Board is proposing to make changes to the rules governing the Student Educational Loan Fund (SELF) to clarify eligibility requirements for co-signers, include eligible schools that are located in a "province" as defined in Minnesota Statute 136A.15, Subd. 5, clarify the types of educational loans a borrower must not have defaulted on in order to participate in this program, clarify the transition period as it pertains to borrowers receiving loans under the Phase I and Phase II of the SELF Program, simplify and clarify language related to the application/guarantee/promissory note process with new processing procedures available now with tele-transmission in addition to the original "hard-copy"/paper process, clarify the circumstances under which annual statements of principal and interest paid will be sent to borrowers and cosigners, and incorporate statutory changes made during the 1993 legislative session as specified in Minnesota Statutes 136A.1701, Subd. 4 [Laws of Minnesota 1993, First Special Session, Chapter 2, Article 2, Section 15].

SECTION II: BACKGROUND

Proposed changes relating to annual and aggregate loan amounts are based on statutory changes made during the 1993 legislative session. In order that the rules correctly reflect current statutory regulations, the rules must be changed through the proposed rulemaking process. In some cases, circumstances have arisen in the administration of financial aid programs, which need explanation or further clarification. Additions have been made to existing rules to ensure that all students are treated equitably in the determination of eligibility for a loan under the Student Educational Loan Fund and that they understand program requirements. The addition pertaining to co-signer eligibility is to ensure that proper servicing and collection requirements can be completed in an efficient manner in order to protect the integrity and financial stability of the program. The minor addition relating to annual statement balances is for completeness and correctness.

SECTION III: PROPOSED CHANGES

The proposed changes are summarized below:

* Add language clarifying the eligibility requirements for a co-signer. Since the cosigner is responsible for repayment of the student's SELF loan(s) if a student defaults, it is imperative that the cosigner permanently reside in the United States for servicing and collection purposes. [4850.0011, Subp. 10]

* Add/delete language to incorporate statutory language pertaining to student eligibility appropriately. This addition is for completeness and correctness. [4850.0011, Subp. 15A]

* Add language to include other types of future federal student loan programs and /or the renaming of current programs. This will provide program administrative flexibility and efficiency. [4850.0011, Subp. 15D]

* Add language to include other appropriate types of student loan programs which the student must apply for prior to the Student Educational Loan Fund. This addition is for clarity and completeness. [4850.0011, Subp. 26]

* Add language to explain the differences in the length of the transition period pertinent to SELF Phase I and Phase II loans. This language is added to provide clarification and completeness. [4850.0011, Subp. 29]

* Add/delete language to cover different methods of applying for SELF loans. The addition is for correctness and to avoid possible confusion. [4850.0012, Subp. 3]

* Add/delete language specifying the minimum loan amount. The legislature directed the Higher Education Coordinating Board to examine the feasibility of reducing the minimum loan amount. This change reflects the Board's decision in response to its suggestion. [4850.0014, Subp. 1]

* Add/delete language pertaining to annual and maximum loan amounts to incorporate statutory changes and provide more efficient program administration in meeting the needs of students at various levels of their post-secondary education. [4850.0014, Subp. 1A and Subp. 1B.]

* Add language to indicate that the executive director will provide annual statements to borrowers and cosigners upon request. This change is for clarity and to avoid confusion by borrowers and co-signers. [4850.0017, item H]

CHAPTER II: Part-by-Part Explanation--Student Educational Loan Fund Program

This chapter provides an explanation for each part of the rules relating to the Student Educational Loan Fund (SELF).

4850.0011 **DEFINITIONS**

Subp. 10. **Co-signers.** Add language clarifying the eligibility requirements for a co-signer. Since the cosigner is responsible for repayment of the student's SELF loan(s) if a student defaults, it is imperative that the cosigner permanently reside in the United States for servicing and collection purposes. The integrity of the loan program and the financial stability of its resources depend on the ability to contact co-signers if for some reason the borrower fails to meet his/her repayment obligations.

Subp. 15A. **Eligible student.** Add/delete language to incorporate statutory language pertaining to student eligibility appropriately. The deletion is to eliminate unnecessary language regarding student eligibility which is already addressed in 136A.15, subd. 9 and 136A.101, subd. 8. The addition is for completeness and correctness.

Subp. 15D. **Eligible student.** Add/delete language to clarify the types of student loans for which the student must not be in default in order to receive a SELF loan. This language change is for clarity, completeness and to avoid potential confusion by future SELF borrowers. In addition, it will provide program administration flexibility as new types of student loans are created in the future.

Subp. 26. **Maximum effort**. Add language to include other types of future federal student loan programs and/or the renaming of current programs which the student should pursue prior to applying for a SELF loan. Since this loan program is meant to serve students who have exhausted all other means of financial assistance, the addition of this new language will guarantee that the integrity of the program and its objectives are maintained. This addition will provide program administration flexibility and efficiency as new federal student loan programs are created, implemented, and/or renamed.

Subp. 29. **Transition period.** Add language to explain the differences in the length of the transition period pertinent to SELF Phase I and Phase II loans. Loans made from bond issues have different transition period requirements than loans made from other sources. The Board felt it was important to clarify the terms of the transition periods for each group of borrowers to provide clarity, completeness, and to avoid borrower confusion.

4850.0012 **SCHOOL AGREEMENTS AND STUDENT APPLICATIONS.**

Subp. 3. **Application, guarantee, and promissory note.** Add/delete language to cover different methods of applying for SELF loans given new technological telecommunications capabilities. The student may now apply for a SELF loan using a "hard copy"/paper application, or may apply through the school using tele-transmission. The deletions/additions attempt to provide flexibility to rules language as technological advances provide a variety of loan processing options. The change is to provide correctness, completeness, and to avoid possible confusion by program applicants.

4850.0014 **AMOUNT AND TERMS.**

Subpart 1. **Loan amounts.** Add/delete language specifying the minimum loan amount. This change is in response to a legislative direction to review the feasibility of reducing the minimum SELF loan amount. Upon review, the Board decided to reduce the minimum loan amount. This change authorized in Laws of Minnesota, First Special Session, chapter 2, Article 1, section 2. This change should make the program more responsive to needs of eligible students who require a smaller loan amount to meet their financial needs. The add/delete language in subparts 1, items A and B incorporate statutory changes pertaining to borrowing maximums for students at varying levels of education. These changes are meant to provide more efficient daily program operation in meeting the changing borrowing needs of students at various levels of their post-secondary education, while monitoring student debt levels. These changes attempt to maintain the integrity of the program and provide efficiency in responding to varying needs of student borrowers.

4850.0017 **REPAYMENT PROCEDURES.**

Item H. Add language to indicate that the executive director will provide annual statements to borrowers and cosigners upon request. This change reflects a servicing procedural change. The servicer will provide borrowers and co-signers with annual statements of outstanding principal and interest for the previous calendar year upon request, but the statements will not be sent by the servicer as routine operating procedures. This change is for clarity, to avoid confusion, and to reflect loan servicing operations.

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9/27/93

STATEMENT OF NEED AND REASONABLENESS

PROPOSED AMENDMENTS TO PERMANENT RULES RELATING TO FINANCIAL AID

as administered by

the Minnesota Higher Education Coordinating Board

In the Matter of the Proposed Adoption of Rules
Governing the Student Educational Loan Fund
and the State Work Study Program

***NOTE:** This document includes information provided in the Statement of Need and Reasonableness pertaining to Proposed Permanent Rules relating to the Student Educational Loan Fund SELF) and the State Work Study Program as published in the July 6, 1993 *State Register [18 S.R. pages 16,17 and 22-24],* and also serves as the Statement of Need and Reasonableness for the Proposed Amendments to Permanent Rules for SELF and State Work Study published with the Notice of Hearing [September 27, 1993 *State Register*]. Information not included in the July, 1993 Statement of Need and Reasonableness and language pertaining specifically to the Proposed Amendments to Permanent Rules published with the Notice of Hearing published in the September 17, 1993 *State Register* are <u>underlined</u> in this document.

September, 1993

STATE OF MINNESOTA
MINNESOTA HIGHER EDUCATION COORDINATING BOARD

In the Matter of the Proposed Rules Governing the Student Educational Loan Fund (Minn. Rules 4850.0011-4850.0017) and the State Work Study Program (Minn. Rules 4830.2200-4830.2400).

STATEMENT OF NEED AND REASONABLENESS

SECTION I: AUTHORITY TO PRESCRIBE RULES

The Minnesota Higher Education Coordinating Board is authorized by statute to adopt policies and prescribe rules and regulations for student financial aid programs. [Minnesota Statutes 1992, 136A.04, Subd. 1(8) and 136A.16, Subd. 2]

SECTION II: BACKGROUND

The Board is proposing to make changes to the rules governing the Student Educational Loan Fund (SELF) to clarify eligibility requirements for co-signers, include eligible schools that are located in a "province" as defined in Minnesota Statute 136A.15, Subd. 5, clarify the types of educational loans a borrower must not have defaulted on in order to participate in this program, clarify the transition period as it pertains to borrowers receiving loans under the Phase I and Phase II of the SELF Program, simplify and clarify language related to the application/guarantee/promissory note process with new processing procedures available now with tele-transmission in addition to the original "hard-copy"/paper process, clarify the circumstances under which annual statements of principal and interest paid will be sent to borrowers and cosigners, and incorporate statutory changes made during the 1993 legislative session as specified in Minnesota Statutes 136A.1701, Subd. 4 [*Laws of Minnesota* 1993, *First Special Session*, Chapter 2, Article 2, Section 15].

Proposed changes relating to annual and aggregate loan amounts are based on statutory changes made during the 1993 legislative session. In order that the rules correctly reflect current statutory regulations, the rules must be changed through the proposed rulemaking process. In some cases, circumstances have arisen in the administration of financial aid programs, which need explanation or further clarification. Additions have been made to existing rules to ensure that all students are treated equitably in the determination of eligibility for a loan under the Student Educational Loan Fund and that they understand program requirements. The addition pertaining to co-signer eligibility is to ensure that proper servicing and collection requirements can be completed in an efficient manner in order to protect the integrity and financial stability of the program. The minor addition relating to annual statement balances is for completeness and correctness.

Most of the proposed changes to Work Study permanent rules are based on statutory changes made during the 1993 legislative session. In order that the rules correctly reflect current statutory regulations, the rules must be changed through the rulemaking process. Other changes are to ensure compliance with the current statutory language governing this program.

SECTION III: PROPOSED CHANGES--Student Educational Loan Fund (SELF)

The proposed changes are summarized below: [Changes pertaining to Proposed Permanent Rules published in the July 6, 1993 *State Register* are summarized in regular typeface below. **Changes pertaining to Proposed Amendments to Permanent Rules published in the September 27, 1993 *State Register* are underlined.**]

* Add language clarifying the eligibility requirements for a co-signer. Since the cosigner is responsible for repayment of the student's SELF loan(s) if a student defaults, it is imperative that the cosigner permanently reside in the United States for servicing and collection purposes. [4850.0011, Subp. 10]

* Add/delete language to incorporate statutory language pertaining to student eligibility appropriately. This addition is for completeness and correctness. [4850.0011, Subp. 15A]

* Add language to include other types of future federal student loan programs and /or the renaming of current programs. This will provide program administrative flexibility and efficiency. [4850.0011, Subp. 15D]

* Add language to include other appropriate types of student loan programs which the student must apply for prior to the Student Educational Loan Fund. This addition is for clarity and completeness. [4850.0011, Subp. 26]

* Add language to explain the differences in the length of the transition period pertinent to SELF Phase I and Phase II loans. This language is added to provide clarification and completeness. [4850.0011, Subp. 29]

* Add/delete language to cover different methods of applying for SELF loans. The addition is for correctness and to avoid possible confusion. [4850.0012, Subp. 3]

  Note: An add/delete appears in the Proposed Amendments to Permanent Rules published with the Notice of Hearing. The change corrected the language to specify that the cosigner completes the co-signer's section of the application and promissory note. The cosigner does not complete the student's portion as was erroneously stated in the language published in the July 6, 1993 *State Register*. [see *Proposed Amendments to Permanent Rules Relating to Education; Postsecondary Student Financial Assistance; SELF Loans*-- section 4850.0012, Subp. 3, attached to Notice of Hearing and published in the September 27, 1993 *State Register*]

* Add/delete language specifying the minimum loan amount. The legislature directed the Higher Education Coordinating Board to examine the feasibility of reducing the minimum loan amount. This change reflects the Board's decision in response to its suggestion. [4850.0014, Subp. 1]

* Add/delete language pertaining to annual and maximum loan amounts. Statutory changes were made to the annual and maximum loan amounts.

Note: The language in this section was changed in the Amendments to Permanent Rules published with the Notice of Hearing in the September 27, 1993 *State Register*. Specific annual and cumulative loan amounts were added for undergraduate and graduate students. [see Proposed Amendments to Permanent Rules Relating to Education; Postsecondary Student Financial Assistance; SELF Loans-- section 4850.0014, Subp. 1A and Subp. 1B attached to the Notice of Hearing and published in the September 27, 1993 *State Register*]

* Add language to indicate that the executive director will provide annual statements to borrowers and cosigners upon request rather than as a routine operational process. [4850.0017, item H]

CHAPTER II: Part-by-Part Explanation--Student Educational Loan Fund Program

This chapter provides an explanation for each part of the rules relating to the Student Educational Loan Fund (SELF). [Explanations for changes pertaining to Proposed Permanent Rules published in the July 6, 1993 *State Register* are summarized in regular typeface below. **Explanations for changes pertaining to Proposed Amendments to Permanent Rules published in the September 27, 1993 *State Register* are underlined.]**

4850.0011 **DEFINITIONS**

Subp. 10. **Co-signers.** Add language clarifying the eligibility requirements for a co-signer. Since the cosigner is responsible for repayment of the student's SELF loan(s) if a student defaults, it is imperative that the cosigner permanently reside in the United States for servicing and collection purposes. The integrity of the loan program and the financial stability of its resources depend on the ability to contact co-signers if for some reason the borrower fails to meet his/her repayment obligations.

Subp. 15A. **Eligible student.** Add/delete language to incorporate statutory language pertaining to student eligibility appropriately. The deletion is to eliminate unnecessary language regarding student eligibility which is already addressed in 136A.15, subd. 9 and 136A.101, subd. 8. The addition is for completeness and correctness.

Subp. 15D. **Eligible student.** Add/delete language to clarify the types of student loans for which the student must not be in default in order to receive a SELF loan. The word "private" was used as a modifier to the phrase "student loan program," and was meant to include the increasing numbers of supplemental student loans available through private or bank sources. For example, there are two supplemental student loans sponsored by The Educational Resource Institution (TERI), a private, non-profit foundation. There are also no-need educational loans such as the "Collegiate Loan" offered by a banking institution. [See Appendix A for a sample listing of such programs.] Also, certain post-graduate institutions, like Stanford University, have started their own institutional student supplemental loan programs. Therefore, the Board felt is necessary to add the word "institutional" as a modifier to the phrase "student loan program" to add clarity and avoid possible confusion. As such programs proliferate, it is increasingly more likely the SELF applicants will have borrowed and possibly defaulted on such loans. The Board felt it prudent to prevent students who have defaulted on such types of loans, as well as other state or federal student loan programs, from receiving SELF loans until their prior defaulted loans were cleared up. The proposed language change to program rules adds clarity and completeness. It is meant to avoid potential confusion by future SELF borrowers. In addition, it will provide program administrative flexibility as new types of student loans are created in the future.

Subp. 26. **Maximum effort**. Add language to include other types of future federal student loan programs and/or the renaming of current programs which the student should pursue prior to applying for a SELF loan. Since this loan program is meant to serve students who have exhausted all other means of financial assistance, the addition of this new language will guarantee that the integrity of the program and its objectives are maintained. This addition will provide program administration flexibility and efficiency as new federal student loan programs are created, implemented, and/or renamed.

Subp. 29. **Transition period.** Add language to explain the differences in the length of the transition period pertinent to SELF Phase I and Phase II loans. Loans made from bond issues have different transition period requirements than loans made from other sources. The Board felt it was important to clarify the terms of the transition periods for each group of borrowers to provide clarity, completeness, and to avoid borrower confusion.

4850.0012 **SCHOOL AGREEMENTS AND STUDENT APPLICATIONS.**

Subp. 3. **Application, guarantee, and promissory note.** Add/delete language to cover different methods of applying for SELF loans given new technological telecommunications capabilities. The student may now apply for a SELF loan using a "hard copy"/paper application, or may apply through the school using tele-transmission. The deletions/additions attempt to provide flexibility to rules language as technological advances provide a variety of loan processing options. The change is to provide correctness, completeness, and to avoid possible confusion by program applicants.

Note: An error was found in the Proposed Permanent Rules as published in the July 6, 1993 *State Register* which needed to be corrected in the Proposed Amendments to Permanent Rules published with the Notice of Hearing in the September 27 1993 *State Register*. An add/delete was used to correct the language specifying that the cosigner completes the cosigner's portion of the application and promissory note. The language incorrectly stated that the cosigner completes the *student's* portion of the application and promissory note. This amended language was necessary for accuracy.

4850.0014 **AMOUNT AND TERMS.**

Subpart 1. **Loan amounts.** Add/delete language changing the minimum loan amount from $1,000 to $500. This change is in response to a legislative directive to review the feasibility of reducing the minimum SELF loan amount. Upon review, the Board decided to reduce the minimum loan amount. This change authorized in *Laws of Minnesota, First Special Session,* chapter 2, Article 1, section 2, subdivision 2.. This change should make the program more responsive to needs of eligible students who require a smaller loan amount to meet their financial needs.

Subparts 1A and 1B. Specific aggregate maximum loan amounts by grade level have been included in the Proposed Amendments to Permanent Rules published with the Notice of Hearing in the September 27, 1993 *State Register*. The language for this subpart previously published in the July 6, 1993 *State Register* had not provided specific loan amounts by grade level. The SELF Program attempts to meet the needs of students who have exhausted all other means of educational assistance. Many times conditions or other program requirements change unexpectedly. The more general language of the Proposed Permanent Rules would have provided the Board with more flexibility to modify loan limits within statutory provisions should such changes appear necessary due to changing needs of students.

Minnesota Statutes 136A.1701, subdivision 4 states: "The principal amount of a loan to an undergraduate student for a single academic year shall not exceed $6,000." The statute does not say that the principal amount shall be a specific dollar amount. Minnesota Higher Education Coordinating Board (MHECB) staff attended House and Senate meetings when discussion of loan limits took place. MHECB staff distributed copies of proposed loan limits distinguishing between lower and upper division students. The Senate voted for higher limits than the Higher Education Coordinating Board suggested, indicating that it wanted higher limits to provide the MHECB with flexibility and room in setting annual limits. The House had no public discussion on loan limits. The House Bill had much lower limits than the Senate. In Conference Committee, it was announced that the House acceded to the Senate's position on SELF loan limits. Following the legislative session, the MHECB reviewed the issue of loan amounts, and staff proposed a $6,000 maximum annual loan amount per year except for students in grade levels one and two. In grade levels one and two, a student would be limited to a $4,500 annual maximum per year. The postsecondary financial aid community appears comfortable with this position as well. The Amendments to Permanent Rules includes specific loan limits by grade level. By listing specific limits in rule, borrowers know exactly how much they will be eligible to borrow at specific grade levels. The rationale for limiting the grade level one and two students to $4,500 rather than $6,000 is:

1) Student Educational Loan Fund statistics indicate that SELF borrowers enrolled in postsecondary institutions offering shorter-length programs (i.e., programs that are less than two years in length and typically offered at Technical Colleges, Community College, and Private Two-Year Institutions), experience the highest default rates. [See Appendices B and C];

2) while the Board recognizes the need for higher loan limits to assist students in funding a postsecondary education, it is also very concerned about the loan debt that students can accumulate in this effort. The Board is concerned about a student's ability to repay up to $12,000 worth of SELF loan debt after no more than two years of postsecondary education-- whether the student completed a two year program or withdrew after attending a four year postsecondary institution for two years For example, assuming that student loan payments should not be more than 8% of a person's income, and assuming a 10 year repayment plan at a fixed 8% interest rate [the SELF average interest rate for Phase II loans is 7.7%], a student with loan debt of $12,000 would require an annual income of $21,838, and would require a monthly SELF payment amount of $145.56.. By comparison, a student with a $9,000 student loan debt would require an annual income of $16,378, and a monthly SELF payment amount of $108.27]. Given the current economic situation, it is difficult for students with **less than a four year baccalaureate degree** to find jobs with starting salaries in excess of the $16,000-$17,000 range.

3) limiting grade level 1 and 2 borrowers to $4,500 a year reduces the potential financial impact of default on the SELF program. The SELF Program is funded through the issuance of tax exempt bonds. No state funds are used to finance this program. Investors are very sensitive to bond ratings when making investments. Therefore to maintain the AAA credit rating the SELF program received from Moody's in 1990, it is important to keep the program financially sound and default rates to a minimum. By maintaining a fiscally sound program, the Board has been able to pass such benefits on to student borrowers by eliminating all guarantee fees on SELF loans.

Bond investors are attracted to the SELF Program for a variety of reasons including:
* the requirement that SELF borrowers pay interest while the are in school;
* all loans have cosigners;
* the overall low default rate.

The Board believes that having students make quarterly interest payments while they are in school serves two primary purposes: 1) it discourages great numbers of students from switching from the federal Supplemental Loan for Students (SLS) to the SELF Program, which would cause the SELF loan volume to explode, and 2) the quarterly interest payment reminds students of their payment obligations, be more likely to monitor their borrowing, and thus avoid default. Higher borrowing limits, especially in the first two undergraduate grade levels, however, could cause higher defaulted dollar amounts by such students and adversely affect the fiscal integrity of SELF. Therefore, the Board is very concerned about all borrowing levels of students, but especially those of grade level 1 and grade level 2 borrowers.

The Minnesota Higher Education Coordinating Board has been successful in keeping defaults low in the SELF. This has enabled the MHECB to avoid charging student borrowers a guarantee fee since July 1, 1989. (A 6.25% guarantee fee was charged during the first four years of the SELF program.) Efficient program operation and low default statistics have enabled the MHECB to receive a AAA rating on bonds issued for this program. Students have benefited from the AAA ratings through lower interest rates on their SELF loans. Since it is more likely that students will drop out of school during their first or second years of a program, the MHECB is sensitive to the need to keep borrowing limits more controlled for such students. It is important to minimize a student's debt burden that must be repaid when he/she withdraws from school. The language in this subpart is meant to protect the integrity of the program, clarify loan limits within the statutory language governing this subpart, and ensure that all student borrowers understand the specific borrowing limits under the SELF Program.

4850.0017 **REPAYMENT PROCEDURES.**

Item H. Add language to indicate that the executive director will provide annual statements to borrowers and cosigners upon request. This change reflects a servicing procedural change. The servicer will provide borrowers and co-signers with annual statements of outstanding principal and interest for the previous calendar year upon request, but the statements will not be sent by the servicer as routine operating procedures. Every SELF billing statement and all correspondence sent concerning the SELF Program contains the loan servicer's address as well as a toll-free telephone number. The MHECB has been assured by the loan servicer that a SELF borrower need only call the servicer to receive principal and interest information on the annual statement within five working

<u>days. Servicing costs of approximately $57,000 per year [114,000 accounts X $.50 per account for a borrower statement and a cosigner statement to be sent] would be saved by not routinely sending such statements to all SELF borrowers. Also, in the past, federal student loan programs sent comparable statements to federal student loan borrowers automatically, but this practice was discontinued after the federal tax law eliminated the deductibility of student loan interest for tax purposes. The savings to the SELF program will be substantial and ultimately passed on to the borrowers. This type of efficient program management has enabled the MHECB to avoid the imposition of fees to SELF borrowers. Annually, $40 million in SELF loans are made to students at no cost to Minnesota taxpayers. Unlike the federal student loan programs, students are not charged an origination or guarantee fee. By attempting to keep unnecessary costs down, more loans can be made to students at lower rates. The language in item H respects the borrowers' rights to receive information regarding their SELF loans, but also attempts to trim unnecessary operational costs. The language change in this section is for clarity, to avoid confusion, and to reflect loan servicing operations.</u>

<u>CHAPTER IV: PROPOSED CHANGES--State Work Study</u>

The proposed changes are summarized below: [Changes pertaining to Proposed Permanent Rules published in the July 6, 1993 *State Register* are summarized in regular typeface below. Changes pertaining to Proposed Amendments to Permanent Rules published in the September 27, 1993 State Register are <u>underlined</u> below.]

- Add language that specifies the type of enrollment figures used for allocation purposes. This is a statutory change. Add/delete language defining the type of enrollment used in the allocation formula. This language is modified for clarity, completeness and to ensure compliance with statutory language governing this program. [4830.2200, Subp. 2]
- Add language clarifying student eligibility and priority for awards under this program. These changes are due to statutory changes. [4830.2300]
- <u>Add/delete language pertaining to the percentage of funds [4830.2400, Subp. 3]</u>
- Add new subpart explaining that permanent employee positions cannot be replaced or modified due to the hiring of work study students. This is a statutory change. [4830.2400, Subp. 4]

CHAPTER V: Part-by Part Explanation--State Work Study Program

4830.2200 **APPLICATION AND DISTRIBUTION OF FUNDS FOR GRANTS.**

Subp. 2. **Allocation formula.** Add language specifying the type of enrollment used in the institutional allocation formula. This addition is for consistency with statutory language governing the program and is meant to avoid confusion. Students receiving financial assistance under this program must be Minnesota residents. This subpart also defines one of the terms used in the allocation formula. This definition is meant for clarity and to ensure consistency in the allocation process.

4830.2300 **WORK-STUDY GRANTS.**

Add language clarifying student eligibility and priority for awards under this program. These changes incorporate statutory changes in program regulations. Language changes are for clarity and completeness.

4830.2400 **EMPLOYMENT TERMS; AMOUNT OF GRANTS.**

Subpart 3. **Hourly wages.** Add/delete language pertaining to the percentage of work study funds provided by the employer. *Minnesota Statutes* 136A.233 states: "The board shall annually establish a minimum percentage rate of student compensation to be paid by an eligible employer." The percentage change indicated in the Proposed Amendments to Permanent Rules will be consistent with the most common percentage applied in the federal work study program. The Board's intention has always been to pattern the state percentage rate after that of the federal work study program. This percentage change reduces the administrative burden for postsecondary institutions with federal and state work study funds. Making the percentage change effective July 1, 1993 will provide a consistent use of matching funds between the employer and the postsecondary institution for all state work study awards made during the 1993-94 academic year. Many institutions are in the process of negotiating work study assignments with off-campus employers. Making the percentage consistent for the entire 1993-94 academic year will reduce the administrative burden on the campus level. Therefore, after consulting with postsecondary financial aid officers administering the State Work Study Program, the MHECB is proposing the change in percentage to be effective July 1, 1993. These changes attempt to ensure efficient program administration, to avoid possible confusion, and to provide consistency in program administration throughout the entire 1993-94 academic year.

Subp. 4. **Replacement of permanent employee.** Add new subpart explaining that permanent employee positions cannot be eliminated or modified due to the hiring of a state work study student. This addition reflects new statutory language governing this program. It is added for clarity and completeness.

Appendix A

Alternative Loan Programs

Table of Contents

The listing of a loan in this Directory does not necessarily indicate participation or recommendation by your school. The information in this Directory is subject to change. To the best of our knowledge, this information is current as of the printing date. Contact the lender for the most current information.

Default Characteristics
Loan program: SELF I
period ending: 31 August 1993

Appendix B

Claim Summary

By school type - Default and Bankruptcy

School type	disb	claims	rate
Technical Colleges	1,651	219	13.26%
Community Colleges	1,114	123	11.04%
Private 4	6,615	316	4.78%
State Universities	6,897	360	5.22%
University of MN	2,175	110	5.06%
Private 2	2,021	243	12.02%
Out of State	1,280	63	4.92%
Total	21,753	1,434	6.59%

By claim type

Claim type	# claims	rate
default	1188	80.22%
bankruptcy	246	16.61%
sub total	1434	
death	34	2.30%
disability	13	0.88%
total	1481	100.00%

Total $ disb	$52,362,601	
Total principal	$3,651,514	6.97% of disb
Total BDR	$3,804,911	7.27% of disb
Total claim	$3,829,640	7.31% of disb

Cosigner Summary

Sex	
male	885
female	549
	1434
Credit worthiness	
credit bureau	1357
PFS	76
unknown	1
	1434

Defaulter Summary

Average claim	$2,581.69
Average loan	$2,460.84
Sex	
male	760
female	674
	1434
Age	
under 25	732
25 and older	694
unknown	8
	1434
average	26.38
Loan status	
In School	78
Transition	587
Repayment	769
	1434
Graduation status	
In school	78
Graduated	853
Dropped	503
	1434

Collection Summary

Avg payments prior to claim

	Number	Amount
Bankruptcy	21.81	$1,266.29
Default	13.34	$916.88
Wtd avg	14.79	$976.82

Collection after claim

Collected (all sources) $1,845,886.21

Payment arrangements		
pmt plan	661	
chpt 13	98	
paid in full	395	
chpt 7	8	
collection	246	1408
Death/Disab	9	9
No payment arrangements		
residents	3	
out of state	1	
skips	13	17
Total		1434

Revenue Recapture

number of borrowers	746
total proceeds	$374,345.92
average collected	$501.80

Default Characteristics
Loan program: SELF II
period ending: 31 August 1993

Appendix C

Claim Summary

By school type - Default and Bankruptcy

School type	disb	claims	rate
Technical Colleges	3,542	108	3.05%
Community Colleges	2,996	73	2.44%
Private 4	13,954	136	0.97%
State Universities	23,938	263	1.10%
University of MN	7,830	75	0.96%
Private 2	3,294	125	3.79%
Out of State	4,470	29	0.65%
Total	60,024	809	1.35%

By claim type

Claim type	# claims	rate
default	756	87.40%
bankruptcy	53	6.13%
sub total	809	
death	51	5.90%
disability	5	0.58%
total	865	100.00%

Total $ disb	$149,549,486*	
Total principal	$2,359,829	1.58% of disb
Total BDR	$2,467,374	1.65% of disb
Total claim	$2,468,572	1.65% of disb

Cosigner Summary

Sex	
male	467
female	342
	809
Credit worthiness	
credit bureau	775
PFS	29
unknown	5
	809

Defaulter Summary

Average claim	$2,859.66
Average loan	$2,729.57

Sex	
male	472
female	337
	809
Age	
under 25	607
25 and older	202
unknown	0
	809
average	23.46
Loan status	
In School	51
Transition	524
Repayment	234
	809
Graduation status	
In school	51
Graduated	391
Dropped	367
	809

* Disbursement information as of 1-93

Collection Summary

Avg payments prior to claim

	Number	Amount
Bankruptcy	12.64	$620.07
Default	8.64	$487.85
Wtd avg	8.9	$496.51

Collection after claim

Collected (all sources) $546,677.90

Payment arrangements		
pmt plan	521	
chpt 13	46	
paid in full	87	
collection	100	754
chpt 7	4	4
DE/DA	3	3
No payment arrangements		
residents	10	
out of state	1	
skips	37	48
Total		809

Revenue Recapture

number of borrowers	416
total proceeds	$184,107.44
average collected	$442.57

9/27/93

**Minnesota
Higher Education
Coordinating Board**

Suite 400
Capitol Square
550 Cedar Street
Saint Paul, Minnesota 55101

612-296-3974

September 22, 1993

Maryanne V. Hruby
LCRAR
Room 55, State Office Building
100 Constitution Ave.
St. Paul, MN 55155-1201

Dear Ms. Hruby:

Enclosed is the Statement of Need and Reasonableness for the Proposed Amendments to Permanent Rules for the Student Educational Loan Fund and the State Work Study Program.

This document relates to the amended Permanent Rules published with the Notice of Hearing in the September 27, 1993 *State Register*. You will be receiving the Notice of Hearing with attached Proposed Amendments to Permanent Rules under separate cover. The hearing on these rules has been scheduled for November 1, 1993.

If you have any questions or concerns related to this matter, please contact me at 296-3974 (ext. 3036) or Phil Lewenstein at 296-9684.

Sincerely,

Mary Lou Dresbach

Mary Lou Dresbach
Administrative Associate

Enclosure

cc. Phil Lewenstein

The Legislative Commision to
Review Administrative Rules

SEP 23 1993