



Tab 11

## Missouri Student Loan Program Update

Coordinating Board for Higher Education  
June 15, 2022

### BACKGROUND

The Federal Family Education Loan (FFEL) Program was established as part of the Higher Education Act (HEA) of 1965. Through the HEA, Congress established an approach in which private banks and state government agencies would partner with the federal government to assist students with paying the cost of postsecondary education.

One of the critical issues that had to be solved in order to make this partnership work was recognizing that banks were reluctant to loan money to students, especially those from low-income families, because of the risk they would be unable to repay the loan. Congress determined the solution was to incentivize banks to make loans available to students by promising to compensate the banks if the students failed to repay. Commercial lenders used their private capital to finance loans, and in return, they received subsidies from the federal government that were used to maintain interest rates at federally mandated levels, pay down fees associated with loans, and cover expenses associated with collection and default.

State guaranty agencies insured the loans against default and provided administrative services. They approved bank loans, reviewed college eligibility, and rehabilitated defaulted loans. Guarantee agencies received a fee from each disbursement of federal student loans they guaranteed, which covered the costs of insuring the loans. If the borrower defaulted, died, or became totally and permanently, the guaranty agency reimbursed the lender for the remaining balance on the loan using funds provided by the federal government.

The Missouri Student Loan Program (MSLP) joined the FFEL Program as a guaranty agency in 1979. In the more than 40 years since, MSLP guaranteed more than \$12 billion in FFEL Program loans. Additionally, because the program was Missouri-based, it has provided exceptional service to Missouri students, borrowers, schools, lenders, and servicers. MSLP has also worked closely with the United States Department of Education (USDE) to ensure our compliance with applicable federal laws and regulations.

Over the years, assets from MSLP have been used to fund state student financial aid programs, default prevention activities, school and lender training, and financial awareness and outreach activities to high schools and colleges. The program helped fund the development and maintenance of the Financial Aid for Missouri Undergraduate Students (FAMOUS) system used to administer Missouri's state student aid programs, and outreach materials to help students and families plan and pay for college.

The Health Care and Education Reconciliation Act of 2010 ended new FFEL Program loan originations and guarantees as of July 1, 2010. Since that date, MSLP has maintained responsibility for previously guaranteed loans, but has had no new guarantee volume.

### CURRENT STATUS

In response to the Covid-19 pandemic, a Dear Colleague Letter (DCL) was issued by USDE on May 12, 2021. The DCL was retroactive to March 13, 2020 and mandated that:

- Interest rates must be set to 0%.
- Involuntary collections (Administrative Wage Garnishment, Federal Tax Offset, and State Tax Offset) must be suspended, and all forced payments received on or after March 13, 2020 must be refunded to the borrower.
- Voluntary payments must not be required, and any voluntary payments made on or after March 13, 2020 must be refunded if requested by a borrower.

- Borrowers must be allowed to rehabilitate their defaulted loan even though voluntary payments are not required.
- Default claims paid by guaranty agencies must be transferred to USDE through a special mandatory assignment (SMA) process. As of May 6, 2022, over \$31 million in MSLP defaulted loan volume is currently pending transfer to USDE.

The mandated payment pause has since been extended twice, currently through the end of August 2022. At present, it is expected to be extended again, at least through the end of the calendar year. MSLP continues to be required to pay claims that will eventually be transferred to USDE through SMA, while our collections recoveries have dropped by almost 90% since March 13, 2020. Additionally, USDE has also announced its intention to establish the Fresh Start program at some point in the near future. Fresh Start will remove all defaulted borrowers from a default status and place their account in good standing with USDE.

## **NEXT STEPS**

As a result of the ongoing collections pause and the announcement of the Fresh Start program, MSLP has decided to exit the FFEL program. USDE was notified in April and will help to ensure a smooth transition for partner lenders and servicers, as well as borrowers. The next step in the transition timeline is that USDE will select a successor guaranty agency to accept transfer of MSLP's portfolio of loans. Depending on which successor agency is chosen, the transition could take anywhere between three and twelve months to complete.

## **RECOMMENDATION**

This is an information item only.

## **ATTACHMENTS**

None