[MADZELAN:] So with that, we will get started today. Again, we are going to talk about what we anticipate to be the new Perkins Loan Program going forward this next year, assuming that the Congress passes the legislation that the President has proposed. She is Gail, I am Dan. I will talk a little bit around some of the policy rationale for moving in this direction and then Gail will pick up and talk a little bit more about the kinds of implementation and transition and more program-specific features that you will need to know on your campuses going forward. So, again as I just said…I tell you what, I am not going to stand in front of that thing since I got the lavaliere. I will move around a little bit. So, again as we said, the President proposed this new Perkins Program in his fiscal 2010 budget request from last winter. The proposal itself around Perkins Loans, and we will get a little more into this, but basically the thrust is to expand the Perkins Loan Program to try and get more to a position where our students are less reliant on what we call the private-label loans, again the non-federal student loans, and maybe some events have overtaken us because the private-label loan market is not, let us say, as robust as it was a year or two ago. Again, this is still our thinking, and our thinking was again to retain some of the campus-based elements of the Perkins Program so that you financial aid administrators would still have a say in how the individual loans are awarded to individual students.

Right now, you know Perkins Loans have been doing this for 40 years, I guess; 1959 was the first year of the Perkins Loan Program, then the National Defense Student Loan Program. You all know about what happened in 1957; Soviets put a Sputnik in the sky and we freaked out, and so a year later we have the National Defense Education Act which in addition to this first of the, if you will, the modern student financial aid programs, also provided money to colleges and universities to improve their science and engineering and technical mathematics programs, but again, for us the National Defense Student Loan Program, the first of what we call the modern financial need-based student aid programs. In the 40 years the government has put in a bunch of money in terms of capital contributions. You guys, your schools, you put in a bunch of money, too, as matching amounts, and so we have about $8 billion loan portfolios sitting out there in the Perkins Loan Program. Again, it is our contributions, your contributions, reimbursements for cancellations, interest income earnings, those kinds of things; so, again, a large chunk of money sitting out there. As we said, the Administration proposed an expansion and modernization of the Perkins Program, essentially proposing to quadruple it in size. We have been hanging at about $1.5 billion in loan volume every year for the past several years and, as you know, also for the past several years; 3 or 4, 5 years now, no federal capital contributions in the program (6, I am told). It just seems like yesterday we stopped giving FCC. I guess time does fly when you're having fun.

So, at any rate, our notion here again is to expand the program, maybe not exponentially, but again quadrupling it so that we get up to about $6 billion in annual loan volume every year and again, you know, expand by a similar size the number of borrowers in the program and also provide for the capacity or capability to increase the number of participating institutions in the Perkins Program. These days, I think we are somewhere around 1800 schools, or something like that; 16, 18. It is less than 2000 now that are actively participating in the Perkins Program. Just to show you a couple of

numbers on the President's budget request we see over there on the right-hand side. I will talk about that negative number in a moment, but again for the past couple of years the Budget Authority, the cash that we put out in the program has just been for reimbursements of loan cancellations, $64 billion or $67 billion a year. We are still dealing with about half a million borrowers every year with total volume of a little over $1 billion, and then you see the average amounts there as well. The big, important part of the President's proposal is to move this program from a cash-based appropriated funds program to a real credit program, and what I mean by a real credit program is one like the FFEL or one like the Direct Loan Program where the price of the program, the cost to the government, is not an annual appropriated amount from the Congress, but rather is the present value of cash flows associated with loans, and this is why we were able to do direct loans back in 1993-1994, because the Congress changed the scoring rules for credit programs. Before then, if you wanted to lend in the federal government $10 billion, you had to put $10 billion on the books. You think about that, it doesn't make a lot of sense because most of those people are going to pay it back anyway. So, really the calculation at that time really favored guaranteed-type loan programs as opposed to direct loan programs. The Credit Reform Act from 1990 changed the calculus so there was no longer this built-in bias in the federal budget for guaranteed-type programs and so that is what the President's request for 2010 shows, you know this negative half a billion dollars in loan subsidy. That means that under the President's proposal we would make money on the new Federal Direct Perkins Loan Program and largely, the reason we would make money on the program is that the loans would be unsubsidized. Students/borrowers would be responsible for paying interest while they are in school, but this also, I just want to point out, since we had the question this morning in the Secretary's session around the $87 billion in savings, again it is not as if that is real money today; it is today's estimate of what the future cash flows for loans will add up to, and in terms of the subsidies that the federal government pays. So, again, if you think about this as a banker, I lend money to you, you pay it back to me, add interest. If the interest you pay me completely covers my administrative expenses, my cost of capital and my mailing coupon booklets to you and that kind of thing, then I have not lost any money. I have not made any money, but I have not lost any, either. I increase the interest rate a little bit, I make money. That is why bankers have the best houses in the best neighborhoods, because they understand that, and that is what we have learned over the past dozen or so years, again, in terms of our student loan programs.

So, what does the actual proposal look like; what would it look like for you guys on your campus? Well, this is also as we have said with respect to our proposal, to go to 100% direct loans on July 1, 2010, and call that the Big Bang Theory. July 1, 2010, things change on that day, just like here, the new Perkins Program would change on that day as well. Now, on July 1, 2010, going forward this is the new program. We still have the existing classic Perkins, your grandma's Perkins Loan Program; you know, all that existing portfolio out there, and we will not talk about that for a minute. I just want to talk about the program going forward. So, again what we are proposing is a significant increase in the loan volume, $6 billion a year, and so how do we put that $6 billion out to colleges and universities because it is not cash-based. This is not appropriated funds. It would not be unlike what those of you who are on the Direct Loan program do now; we

have a system in place, a direct loan origination. You have someone who meets the eligibility requirements. You type it in, or however you do that, and the loan is made, and again it is not dependent on any appropriated funds. That would be the same notion here. We would handle it very similarly to Direct Loans, but unlike Direct Loans, which has no annual limit on the government's exposure in terms of loan volume, what we would do here in the new Perkins Program is to limit the overall volume to about $6 billion a year. So, we would have, for lack of a better term, I will call it an allocation formula, a way to divide up $6 billion of Perkins Loan authority among 1700, 1800, 2400, 2700 institutions, whatever the number is. I will talk a little bit more about that in a moment. We would also do all the work like you do for Direct Loans, we would do a lot of the work, in terms of the origination of these new Direct Perkins Loan programs and, if you notice, and Gail will say this, too, I am sure, what we are really driving home, we say Direct Perkins Loans. Again, this is not the existing Perkins Loan Program. Although in many respects for individual borrowers it looks the same; same 5% interest rate, but again, we are not paying interest while they are in school. They would be responsible for all of the interest that accrues, and just like our unsubsidized loans right now, they could pay as they go or let it accrue and be capitalized at the time of repayment, retain the same loan maximums, annual and lifetime, and the existing list of loan cancellation possibilities we currently have in the Perkins Program, those will go away. I mean, we would then have under our proposal the same set of loan cancellation provisions for Direct Perkins Loans that we have in FFEL and Direct, so it is basically the teacher cancellations and the Public Service Loan Forgiveness, but also coming out of last year's reauthorization, the 23 or 26 (I can't remember the number) of categorical loan cancellations, none of which has been funded yet. But, again, if the Congress ever gets around to funding those, again the Direct Perkins Loan Program borrowers would have access to those cancellations as well. Again, just a little bit more about the President's budget, it is really Pell Grants. You know, you heard the Secretary this morning talk about the Early Childhood Learning Initiative and the State Federal Partnership, the College Access and Completion Grant Program. Yes, they are important, too, but Pell Grants, and also in terms of the reliability and understanding for students, prospective students and their family where the money for college will come from, again under our proposal rather than to have the Pell maximum subject to annual appropriations we would build in this automatic increase. The secretary mentioned that as well, an annual increase equal to the rate of inflation plus 1 percentage point.

So, we provided our proposal for the Direct Perkins Loan Program as well as Pell Grants, as well as going to 100% Direct Loans, as well as the College Access Completion Challenge Grant--I mean, just down the list this last February when the President announced his fiscal 2010 budget. The House of Representatives basically has enacted a good chunk of what we proposed, maybe not exactly how we proposed it, but again to get to sort of the same policy goals that we had laid out as an administration and now the House of Representatives addressing those similar goals, maybe in a slightly different fashion. Whereas the House completed their work on the bill in this past summer, the Senate is still working on a companion bill. We think that they have pretty much finished it because we don't get too many requests for technical drafting assistance anymore from the Senate, so we think they have pretty much

finished their work, but this is within the budget reconciliation process; it is not stand-alone legislation. So, what else is moving through the Congress in the budget reconciliation process? Two words--you can all say it with me--health care. So, that is not my job, not Gail's job to sort of figure out legislative strategy around this, but at pay levels way above ours. Those are the discussions that are ongoing now, how best to move this bill through the legislative process because, how is budget reconciliation different from everything else legislatively? In the Senate you need 51 votes. You don't need the 60 to be filibuster-proof, and the Budget Committee issued one instruction for this year, which included health care and student aid, so there will be one reconciliation bill, maybe health care only, maybe student aid only, maybe both together, or maybe none at all. Doesn't have to be one. So, at any rate, we keep saying the Senate will be acting soon. They will be introducing their bill and, again, we are still waiting. What we do know about the House bill is, again, implementing many of the Administration's proposals for the Direct Perkins Loan Program. Again, the same July 1st starting date, the $6 billion loan authority, let more schools into the program, and with more schools in the program, then availability of more Perkins loans to more borrowers.

Again, the House bill has the Administration's notion of an allocation of loan authority to institutions and like what we had proposed, we had proposed a hold-harmless amount and then additional money based on how good a job your school does relative to other schools in terms of keeping tuitions low and providing need-based grant aid to your students, so we would use those two pieces, the low tuition and the need-based grant aid, and also the persistence rate of your grant recipients, as basically an index to get more loan authority above the hold-harmless amount. That is where we were. Again, the House pretty much agreed with that approach, a couple of differences, but again a hold-harmless amount which, as you see there, is a 5-year average of lending in the Perkins Program, in the classic Perkins Program, so we will carry that forward. So, again the hold-harmless amount would be somewhere around $1.5 billion, so that would leave three-quarters of the money, $4.5 billion roughly, of loan authority to be allocated on some basis. What the House has in their bill is basically for the allocation above the hold-harmless amount 3 parts. You see them there: one-half, one-fourth, one-fourth. Basically, what they are moving towards here is building an index just like we have now in the Perkins Program as well as Federal Work Study and Supplemental Grants; we have the need calculation; we produce an index. We then use that index to drive a fair share part. So, the idea here is the same, to develop some kind of an index, then to drive the allocation of the $4.5 billion roughly loan authority in the program. The first half of the index would be based on the existing self-help formula with one modification. The reason we didn't like using the existing self-help formula, because there is no disincentive within that formula for institutions to raise tuition prices, so that is one of the things, because we had a policy goal of directing more of this money towards institutions that kept their tuition prices in check, that is why we were moving away from the existing self-help need formula calculation. The House has retained that with one important consideration and one important modification; it is that when you are going… Maybe some of you have joined me previously when I explained all of the details of the campus-based allocation (I see some heads nodding). I am not going into that, but if

you recall, we started there with an average tuition and fees and that was sort of the top level in terms of the calculation.

What the House bill would do would be to basically top code that tuition and fees to, I think it is $5500. So, what the House has done with this modification is to take away any incentive that schools might have to just keep raising prices in order to get additional loan volume. They may be raising prices for other reasons, but it would not translate into an increase in the Direct Perkins Loan lending authority. Then, the other half would be equally divided. Again, that is basically an index; that is a number. Then, what the House would do would be to add onto that number some consideration for, again, low tuition, schools keeping their tuitions low like we had proposed, as well as another component around degree completion or program completion/attainment for Pell Grant recipients, again a relative measure across other institutions just like the low tuition incentive amount. A question?

[AUDIENCE:] [Inaudible]

[MADZELAN:] Yes, hold-harmless amount still.

[AUDIENCE:] [Inaudible]

[MADZELAN:] Yes, I would have to look at the language in the House bill a little bit closer, but I believe what it says is that a Pell Grant recipient who completes at your institution, no matter where that person got that Pell Grant. Again, I would have to read the details. We understand that there is an issue here for graduate-student only schools and just sort of as a related matter, we understand we have a similar issue in terms of moving to Direct Loans because we have said on Direct Loans, if you are in Pell Grants you can probably do Direct Loans pretty easily because you have the COD system. Now, we understand that some graduate-student only schools, obviously, don't have Pell Grants, but that is… Again, it is certainly an issue that we are aware of. The other thing to keep in mind, and again there is an interest rate differential, but Grad PLUS; I mean, 5% unsubsidized versus 6.8% unsubsidized. So, again, we as a policy matter were less concerned about graduate and professional students and private-label loans than we were about undergraduate students and private-label loans because of the Grad PLUS. Again, the first 50%, as we just said, would do a relative index just like we do in the current campus-based formulas, again with that one modification to limit the tuition cost that is built into the formula. We put this in here, but I don't think this will ever happen because, at least for Supplemental Grants and Work Study these days, the total self-help need is, I don't know, $30 billion or $40 billion, which of course in the SCOG Program we ratchet down to $760 million or $800 million (I can't remember the appropriation right now), but again the point here is that if for some reason the calculation of the modified institutional need is less than the loan authority available, then we just reduce it down so that we just keep all of the ratios proper, so you are never in a circumstance where the sum of all of the indexes exceeds 100%. That is basically all that is saying.

Again, for the low tuition, it is how good a job you do in terms of keeping your tuition low for your sector and again, a relative calculation. Same thing with the Pell persisters or Pell completers that we say. I mean, your number as a proportion of everybody's number, so again add those indices together and that is the completed index that we use to calculate your institution's share of the $6 billion. Again, we do have House provisions here. The Senate is considering similar provisions. Some of the language that we have seen is pretty similar. I mean, the same notion of building an index or getting to an index, but there are a couple of ways to get to an index; you either can build up to it or you can start with a high index and start taking away if certain goals aren't met. So, again there are a couple of different approaches here and again, we will see in, we hope, the not too distant future the Senate bill here. That is sort of the reason why we have proposed what it is that we proposed, and now I will turn it over to Gail and she can go through a little more of the detail.

[AUDIENCE:] [Inaudible]

[MADZELAN:] To answer the first part of your question, again we are generating savings in the other student aid programs to increase Pell Grants in a significant way.

[AUDIENCE:] [Inaudible]

[MADZELAN:] Now, again I don't disagree that this is different from the existing Perkins Program, and again what we are thinking about, sort of the primary policy rationale here, is to lessen any reliance, any use of non-federal student loans. I mean, we are driving this proposal towards that policy so the extent to which your students, anyone's students would not have to borrow under the non-federal student loan programs because of the expanded availability of Perkins Loans, we don't think that's a bad thing at a policy level.

[AUDIENCE:] [Inaudible]

[MADZELAN:] Okay, thank you.

[MCLARNON:] Okay, thank you. I would only add to Danny's remarks about the rationale for the policy change in the Perkins Loan Program is that we envision far, far more borrowers being eligible for more loans and far many more schools participating in this program. So, while the changes to the current Perkins Loan Program--I know many of you find them disconcerting and I've heard this again and again and again as I have made presentations on the Perkins Loan Program across the country--it is disconcerting to the schools that currently participate, but as the Secretary said today, we are talking about access, we are talking about attainment and completion, and the fact that so many more borrowers will benefit from these loans is something that we really have to seriously consider. Change is hard, but the fact that more people will benefit in a big way from these loans and more schools will participate is important as well.

To continue on with the provisions of SAFRA, H.R. 3221, institutions, even current institutions that participate in Perkins will have to enter into a new agreement with the Secretary and this is the agreement that is currently entered into with Direct Loan schools. It is consistent with Section 454 of Part D of the Higher Education Act. This is the Direct Loan Agreement under which schools identify eligible students; they estimate student need; they certify and originate loans; and they provide accurate and timely information to the Secretary in terms of student borrowers in accordance with program requirements. Danny said, and I will say again, the Obama administration has created a new program that is very much like the Direct Loan program and a lot of the things you are hearing us say today mirror the way the Direct Loan Program is run. Another interesting aspect of the new Perkins Loan Program is that the concept of matching funds from the institution will continue to play a role in the new Federal Direct Perkins Loan Program. In the House bill we have a provision that institutions pay matching funds into an escrow account for the purpose of providing benefits to borrowers, and this is basically a place holder right now. The original provision in the House bill would have required institutions to pay the in-school interest for borrowers while they were in school on the new Federal Direct Perkins Loan. This met with quite a bit of concern, if you will, from participating institutions currently and those institutions that were planning on getting into the new program, so Congress backed away from that particular concept of paying in-school interest, put a place holder in here, but there will be some sort of a matching fund requirement for schools that participate in the program. We have mentioned the Senate bill in development has not yet been introduced, but we do expect to see some more detail there in terms of what the matching fund requirement will look like for Perkins Loan schools.

Just a word about loan benefits. Danny mentioned this earlier; I will mention it again. Perkins Loan borrowers enjoy a long list of cancellation benefits. They enjoy subsidized periods in school during deferment periods, things of that nature. The conditions of a Perkins Loan would revert to those of an unsubsidized direct loan; Teacher Loan Forgiveness, Public Service Loan Forgiveness, the many unfunded cancellation provisions that were part of the HEOA would also become available to Perkins Loan borrowers as well.

Another change for Perkins Loan participating schools would be that you would be subject to the FFEL and Direct Loan Cohort Default Rate provisions, and this is significant because the HEOA made some fairly major changes to the way the cohort default rates are calculated in the FFEL and the Direct Loan Program. Basically, the HEOA increased the time period used to calculate cohort default rates from 2 years to 3 years in the FFEL and Direct Loan programs. It also increased the default threshold in FFEL and Direct Loans to 30%. This is an increase from 25% for the 2-year rates, and basically an institution would lose its eligibility to participate in the Pell Grant Program, the FFEL Program, and the Direct Loan Program if its 3-year default rate is equal to or greater than 30% for 3 consecutive years. So, these are new provisions for Perkins; again, HEOA would require institutions whose 3-year cohort default rate for a single fiscal year that is 30% would have to establish a default reduction plan. So, some

changes around cohort default rate calculations for the new Federal Direct Perkins Loan Program.

Again, like the Obama administration's budget proposal for the new Federal Direct Perkins Loan Program, Congress mirrored many of those proposals with terms and conditions of a Federal Direct Loan, keeping the 5% interest rate that is currently enjoyed in the Perkins Loan Program and current annual and aggregate loan limits. Those are $5500 annually for undergraduates with a $27,500 maximum, and $8000 annually with a $60,000 aggregate for graduate and professional students. Also note that a grace period for a new Federal Direct Perkins Loan borrower would go from 9 months to 6 months under the new Federal Direct Perkins Loan Program.

Let's talk a little bit about what will happen to your institution's revolving fund under the provisions in H.R. 3221. Basically, what we have seen of the Senate bill so far would mirror what we are seeing in H.R. 3221. In essence, the bill is setting up a process by which the Perkins Loan Program will end. It will be a process that will take some time to complete; the end result, however, is that both institutions and the federal government will recover their share or their investment in the program. Ultimately the institution will recover its ICC and various other costs and the Department of Education will recover its federal share. Currently, if you are an institution in the program and you want to get out of the program, we call that liquidation. Think of the end of the Perkins Loan Program as a liquidation of the entire program. So, what we have in this bill is a provision that an institution will make a capital distribution of the federal share of its revolving fund to the Department beginning on July 1, 2010, or whatever date the Congress designates as the beginning of the new Federal Direct Perkins Loan Program. It has been mentioned in Washington that this program may take effect on July 1, 2011, not 2010, but until we see what the Senate proposes we are going to stick with what we see in the House bill, so assume for now that this process begins on July 1, 2010.

So, the institution makes a capital distribution from its revolving fund of the federal share less these 3 amounts: administrative costs (and this is a new definition of administrative costs, and I will tell you the details of that shortly), rate charges collected (these have always been considered institutional money, so you would keep any late charges you have collected), and outstanding loan cancellation costs. Under this process, institutions would be made whole in terms of their reimbursement for cancellation of loans or ICC. Previously, we relied on a congressional appropriation to refund you or provide reimbursement to you for cancellation. Under this process whereby you will be returning monies to the federal government, you will minus out what we owe you in terms of your cancellation costs.

In terms of your revolving fund, there is a specific provision in H.R. 3221 that will ensure the return of any short-term loans that you have made to your fund in anticipation of collections or FCC when FCC was available. I think this is a reflection of the concern many institutions have brought to Congress and the many short-term loans institutions have been having to make to their funds, a result of the drying up, if you will, of the steady stream of consolidation that was going on for quite a while, borrowers

consolidating their federal Perkins loans, lots of money coming into your revolving fund. Consolidation was made a lot less attractive by several pieces of legislation and that money stopped coming in. Many institutions were caught short by that and were making loans to their funds so they could keep their commitments to their borrowers. So, the provision does ensure the return of those short-term loans to you. There are a couple of provisos in there; you are going to need to document to the Department that you still have a short-term loan outstanding and the Secretary will make these adjustments on a case-by-case basis.

Let's talk a little bit about what will happen to your outstanding Perkins Loan portfolio. You are going to have a choice here. You are going to be able to assign all of your outstanding loans that were made before July 1, 2010, to the Secretary, or you will be able to continue to service your outstanding portfolio under the existing regulations. Whatever choice you make, it will present challenges both to your institution and to the Department as we wind down the Perkins Loan Program together. If an institution assigns its outstanding loans to the Department, the Department will service those loans and the Department will return to you your institutional share. We will also include any late charges that we collect and we will also include loan cancellation reimbursements to you. If you choose to assign to us, we will service and we will return all of your institutional monies to you. If you continue to service your outstanding portfolio, you will continue to collect on those loans and you will, rather than us returning monies to you, you will return money to the Department. You will return the federal share quarterly to the Department and you will minus from that submission to the Department administrative costs, late charges and your loan cancellation costs as a result of loans canceled.

Again I would like to emphasize that there are going to be challenges both from our perspective, the Department's perspective, and from your perspective. Simply the logistics from the Department's perspective of ramping up an assignment process and personnel involved that will be able to handle the volume that we expect will be a challenge. Not only the volume, but also acceptable documentation. There will be discussion of assignment generally. That discussion has begun in the Department. We are going to need to discuss prom notes, disbursement records, acceptable documentation. We are going to need to talk about payment accounts, accountability, cash flow, audit requirements, all manner of issues we see arising around this process whereby schools, depending on your choice of returning money to the Department, or if you have assigned, we would be returning money to you.

Some of the things we are asking our audiences here at the conference to consider and to let us know, either at the end of our presentations or e-mail Danny or I, are ways that you think the Department can make the assignment process easier, ways that we can facilitate assignment of your loans to the Department should you choose that option. The Secretary mentioned today that we want to listen to what you have to say, open the dialogue around certain issues that we anticipate in the student loan reform area, and Perkins, of course, is no exception. Again, we recognize that there will be challenges both for you and for the Department. I mentioned a little bit a little while ago about the

new definition of administrative expenses. This is going to be for institutions that continue to service their Perkins loans. You will be able to receive a payment that is equal to 0.5% of your outstanding principal and interest balance on the loans being serviced as of September 30 of each fiscal year. This would take the place of your current administrative cost allowance and, when I mention return of funds minus administrative costs, this is the administrative cost that we would be calculating.

Some changes also in SAFRA are regarding mandatory assignment; we have new language that the Secretary can require institutions to assign a loan to us if you have failed to maintain an acceptable collection effort. This is a change from the current language. Current language requires you to assign to us if you have knowingly failed to do due diligence on the loan. It creates somewhat of a lower bar for the Department to mandate assignment. Also recall that the Department of Education had negotiated changes in mandatory assignment and set out certain criteria a few years back. Congress came along behind us. We did that based on preserving the federal fiscal interest. Congress came behind us, took away our ability to mandate assignment and then, again, coming behind themselves, created another set of standards for the mandatory assignment of Perkins loans. The good news around mandatory assignment is that should we mandate the assignment of any of your loans, depending on what criteria we develop in regulations, we will return to you all of your institutional monies, just like we do on the loans that you assign to us, should you opt to assign loans. So, some bad news and some good news. Really thinking about mandating assignment, Congress's concern here was that institutions, should they continue to service their own portfolios, would continue to hold loans that were unenforceable and the real goal here is to wind down the Perkins Loan Program, to end the program while beginning a new program and we did not and Congress did not want to see old loans hanging on, hanging out there without at least the Department getting a crack at collecting them.

A couple of operational slides here. This is really a policy presentation, but we did include a few operational slides for you. The new Perkins Loan Program will be available as of the 2010-2011 award year or, again, whatever award year Congress decides it will be available. The Common Origination and Disbursement, or the COD, system will receive, process, and store Perkins Loan originations and award adjustment records, and award and adjustment records will be submitted by schools in a common record or through our COD web site. Recall that for all intents and purposes, with very few exceptions, the new Federal Direct Perkins loan will have the same terms and conditions as an unsubsidized Federal Direct Stafford loan, and that schools that participate in the new Perkins Loan Program will be required to enter into the same participation agreement that Direct Loan schools enter into. So, this operational aspect of the new Perkins Loan Program is going to be very much like the current Direct Loan Program. Expect Master Promissory Note modifications to link Perkins in to the Direct Loan Promissory Note, also look for Direct Loan entrance and exit counseling to include Perkins Loans, the new Federal Direct Perkins Loans, and also be aware that Direct Perkins Loans will be serviced by our Title IV additional servicers.

We do have a session here at the conference; it is session #6, *What's New in COD for Direct Loans,* and they will cover some aspects of the Perkins Loan Program in that session. We are also very lucky to have Kathy Wicks here with us today. She is here in the front row. Should you have any questions today about operations for Perkins, Kathy will help us answer your questions. We do anticipate a fairly robust regulatory effort around the new Federal Direct Perkins Loan Program and as you know, any time we make changes to any provisions in Title IV, we are required to do so by negotiated rule-making. We will go into what we call our Neg Reg process so you can expect to see a variety of Federal Register notices announcing our intent, soliciting non-federal negotiators and setting up a negotiating schedule. So, what might be on our schedule is the content of the next few slides here. There is quite a bit of change, as you have heard today. You can expect some activity, perhaps, around loan authority based on low tuition and the Pell Grant recipient and graduation rates. Again, we have to wait and see here what we get on the Senate side. We are anticipating the possibility of something different around loan allocation from the Senate, so we will have to wait and see, but we may engage in some negotiations around those issues. The calculation and the amount of matching funds for the purpose of providing loan benefits to borrowers; as I mentioned in the House bill, that is simply a place holder right now. We have seen various versions of the Senate bill. Nobody really knows what is in there yet and we won't until it is introduced, but that could certainly be a topic. Clearly a topic for negotiations will be the calculation of cohort default rates for the Federal Direct Perkins Loan Program. As I said earlier, the HEOA made some fairly significant changes to the FFEL and Direct Loan calculation of cohorts that would also affect institutions participating in the new Federal Direct Perkins Loan Program and we would have to modify our program regulations in the Federal Direct Perkins Loan Program to reflect these changes as well as perhaps provide some sort of transition to you as you move into the new program. Mandatory assignment is almost guaranteed to show up on our agenda because the statute does require the Secretary to establish these new criteria by regulation, so that would probably be an area for negotiations as well. The treatment of short-term loans to your fund; remember that institutions have to demonstrate to the Secretary that a short-term loan is outstanding, and the Secretary makes these adjustments on a case-by-case basis, so there is the possibility that we would be regulating in this area, making sure that for program integrity purposes these short-term loans exist and that they are calculated correctly.

Changes to the assignment process; again, be thinking about that. The Department has begun serious discussion in terms of how we can facilitate the assignment process, how can we make it easier for schools who are going to opt to assign their outstanding portfolios to us. Finally, rules governing the process by which ED returns the institutional share, also the process by which you return the federal share may come under some scrutiny as well. And then, just generally if you consider our regulations, we have got the general provisions in Part 673 for campus-based programs, the Perkins Loan regulations in 674, and the Direct Loan Program regulations in 685. At the very least, they will have to be updated to reflect the establishment of the new Federal Direct Perkins Loan Program, and all manner of changes to make these regulatory sections consistent with the new statute will be necessary as well.

So, that pretty much wraps up our presentation. Thank you for attending. We would be happy to answer any questions that you might have at this time.

[AUDIENCE:] [Inaudible]

[MADZELAN:] Yes, the question was about the allocation of loan authority and would that be coincidental or consistent with the existing process system for Supplemental Grants and Federal Work Study. The short answer is yes; the more complicated answer is that there is additional information that we would need from you to implement any of these allocation schemes that are under consideration and the clock is ticking. You know, bluntly, the Congress was supposed to finish their work on this on September 15th, so there are real concerns about effective dates in general in this bill. One of the things to keep in mind, however, is it is a budget bill and there are savings, and the savings are based on comparing proposals to the existing state and so, extending beyond July 1st there are some, as we say, scoring issues, budget issues involved.

[AUDIENCE:] [Inaudible]

[MADZELAN:] Yes, and the followup was an expression of gratitude for the extra $200 million in the Work Study Program coming from the stimulus legislation, but also a concern about being able quickly to come up with the required matching amount and what would be, evidently, a similar thing with this Direct Perkins Program; and, again, one of the things that maybe could make this a little more clear is that unlike the existing cash-based, we give you FCC, you match some institutional cash, that would not be the case here. We would be looking at other measures that would implicitly be institutional matches, such as, for example, the provision of need-based grant aid. Think about a larger institutional provision of need-based grant aid as a kind of an institutional match for this.

[AUDIENCE:] [Inaudible]

[MADZELAN:] The question was, again, following up on the timing and with a July 1, 2010, possible start date and the need to begin packaging planning in the next couple of months, what kind of direction from the Department? Again, we anticipate congressional action soon. Currently you get some sort of a tentative information about February 1st, then the final on April 1st. It is conceivable that if we do stick with the July 1, 2010, effective date for this Direct Perkins, perhaps in the first year the only allocation would be the hold-harmless part which would again be sort of continuing on as essentially the existing program, pretty much your existing volume for another year because, again, in order to get to what I would call the fair share or the extra distribution we will have to get some additional information from campuses.

[MCLARNON:] I would only add to that that I mentioned it earlier in the presentation, Congress is very much aware that the 2010 date for Perkins could cause some problems. I know there is a coalition of schools, various associations are up there

making their concerns known, and we have heard more than once that the July 1, 2010, date could become a July 1, 2011, date. Again, to emphasize what Dan says, until we see what is in the Senate bill, it is really difficult for us to go with anything but this 2010 date right now, but we have heard that Congress is sympathetic to postponing this for a year.

[AUDIENCE:] [Inaudible]

[MADZELAN:] The question is, how does the current Perkins default rate affect its ability to participate going forward. At this point, what we have seen in the legislation is, we still have the cohort default rate for FFEL and Direct that would affect, if you are subject to that, it would affect participation–Pell, Stafford subsidized, and on down the line, but as far as the House bill, I don't think there is–is there anything specific in there about…?

[MCLARNON:] No. There is no mention about how this sort of a transition would take place. I think realizing that this new Federal Direct Perkins Loan Program is going to be really another version of a Direct Loan, Congress was cognizant of the fact that Direct Loans are governed by a different set of requirements in terms of cohort default rates. I think their reaction was, well, it makes sense to apply this same set of standards around cohorts to the new Federal Direct Perkins Loan Program, but as is often the case, they did not give it too much more thought than that, so when we bring up the subjects that we talk about in negotiated rule-making, one of the reasons we include that on the list is that is a discussion that needs to be had. Probably that would be one forum to work it out. There could be other ways we could transition new schools into this sort of new paradigm for cohort default rates.

[AUDIENCE:] [Inaudible]

[MADZELAN:] The first question was around, again, incoming first year students where you package in March or so, and the second question, I am guessing a lot of you heard by the applause, was increasing unsubsidized loan limits. First question first. I am not here to minimize this, but in terms of packaging, the only difference is an unsubsidized loan if the Congress goes along with this proposal for July 1, 2010, but it is the same loan limits, same annual limits, same otherwise, packaging, awarding….

[AUDIENCE:] [Inaudible]

[MCLARNON:] Well, any loan that is made before July 1, 2010, will continue to carry the terms and conditions of the Perkins Loan Program as it currently exists.

[AUDIENCE:] [Inaudible]

[MADZELAN:] Again, this is a part of the effective date discussion that is ongoing. With respect to teachers, you know we do have the existing FFEL and Direct $5,000/$17,500 teacher cancellation provision, and then your second question was about…

[AUDIENCE:] [Inaudible]

[MADZELAN:] Oh, yeah. The idea here is, again, this is within a budget context and so there are savers and costers. Basically, savers are the loan program proposals, costers are Pell Grants and the state/federal partnership and the Early Learning Fund, those kinds of things, so yes, we could raise limits in the unsubsidized program, but the policy preference is to continue to put as many resources as we can into Pell Grants, but also in the Perkins Program retain for you some discretion around who you award your Perkins loans to, unlike Direct Loans, where basically they are open-ended. I mean, you give us a record, we give you money. Existing Perkins Program, you have to stay in whatever your authorized level of lending is and, of course, that can change over a period of a year if you did increase collections. Gail mentioned the consolidation boom from a few years ago, but still we are keeping within the Direct Perkins proposal this notion that it is not open-ended and therefore you as the professional can use your judgment and your discretion to best direct loan funds.

[AUDIENCE:] [Inaudible]

[MADZELAN:] Should schools be making preparations to liquidate their cash on hand now?

[MCLARNON:] I wouldn't think so. We say this again and again; until this is enacted, you can prepare, you can make ready, but I would wait to do anything definitive at this point.

[MADZELAN:] And remember what Gail had said earlier; I mean, when/if there is a new Direct Perkins Loan Program, there is an existing portfolio out there, you will still manage it in some fashion or we will manage it for you, and ultimately as those collections come in you get your money, we keep our money.

[MCLARNON:] Right, and the other thing about your revolving fund is that beginning on whatever the begin date is, say it is July 1, 2010, you make that remittance to the Department quarterly, so the first remittance would be due no later than September 30th, the end of the first quarter, so you will have time, should this become law, should it become effective on July 1, 2010, you will have until the end of the first quarter to make that first remittance to the Department of the federal share.

[AUDIENCE:] [Inaudible]

[MADZELAN:] The question has to do with ordering of awarding Direct Perkins Loans and we had originally expressed a preference that Direct Perkins would come after subsidized Stafford and unsubsidized Stafford and, again, the thinking was that the Direct Perkins would be a substitute for private-label loans. We subsequently moved away from that notion. The House bill certainly does not have that ordering, that sequence in there, so it would be your professional discretion in that area.

[AUDIENCE:] [Inaudible]

[MADZELAN:] The comment was about at a minimum we should have changed the name of the program, basically, though, and I will say that in my 31 years at the Department of Education I have never seen an administration propose a name for a program for a person. It's the Congress that…all I am saying is that we don't have any culture or tradition of proposing a program with a name of a person on it. That's how Congress honors their own.

Last question. The nice lady is holding up her Stop sign, so…

[AUDIENCE:] [Inaudible]

[MADZELAN:] And the question was around, again, concern about what is an increasingly compressed timeframe between now and anticipated implementation on July 1st and has the Administration taken a position on that? We have not yet, and we have been talking to the Congress about this. The Congress asks us about it because they are hearing from you folks and your advocates around this issue. I wish we could be a little more forthright at the moment, but again, where we stand right here today it is still July 1, 2010, but I don't think the ground we are standing on is quite as firm as it had been, so…that's it. Thank you.