Introduction: Ladies and gentlemen, the Department of Education's office of Federal Student Aid welcomes you to the 2011 Federal Student Aid Conference. And now, please welcome to the stage, Chief of Staff for federal student aid, Mr. Jim Manning.

[Applause]

Jim Manning: Good morning. Wasn't that a great way to start the program? *[Applause]* Just wonderful. And two of those kids needed FASFA's so Jennifer, if you can get them before they leave. They're ready to go next year. I want to start by thanking the Civil Air Patrols and Ellis Composite Squadron Color Guard for that wonderful display of the colors and let's please give another hand to Malia Civetz for her performance of the National Anthem. *[Applause]* That was just wonderful. Malia is just 17 years old and she's an Honor student from the Las Vegas Academy of the Performing Arts and that's not the last time you'll hear her. Malia was just named the winner of a Barry Manilow's Fame contest and will be singing with him in his show. So again, thank you. *[Applause]* Let me begin by officially welcoming you all to the Federal Student Aid's 2011 Annual Fall Conference. I hope this week's training sessions are as informative as entertaining. I understand that we are sharing this facility with Wranglers National Rodeo this week. So those cowboys with the steers and ropes are not the program compliance team. *[Laughter]* But the program compliance team is here, so be on your best behavior. We're happy to have over 7,000 financial aid professionals here with us this week from across the country and around the globe. Folks have journeyed to Las Vegas from Santiago, Rome, Vancouver and Sydney to be here. Well, let me just say, there is no one else I'd rather be in the middle of the desert than with all of you. *[Laughter]* In saying that, we all recall what happens in Vegas, stays in Vegas as a general rule. But I'm certain that you will be bringing back important, valuable information and training to your campuses after this week. We have a lot in store for you. To finish the formal introductions, I'm Jim Manning, and I'm the Chief of Staff at Federal Student Aid. FSA's Chief Operating Officer Jim Runcie was to be here, wanted to be here. Unfortunately, he's not able to be with us. He's home dealing with a family issue, but I'm here, and pleased to represent him and FSA. I wanted to serve at an organization whose mission is to assist students and families to go to college and pursue their dreams. I know you share this passion for helping students. I'm especially excited to have the opportunity to meet many of you over the course of the week. You are in a noble and invaluable profession. Assisting students and families to navigate the financial aid world is a calling. I want to thank you, personally, for your service. And you all deserve a round of applause for that. *[Applause]* Your work helps millions of students attend college. In fact, 15 million students received over $150 billion in grants, loans and work-study last year. That is the largest amount of aid delivered in the history of the Title 4 programs. We also processed more than 21 million FASFA's. It has been a remarkable year by all accounts. For our programs – and I'd like to highlight some of the successes of the last year and the challenges that lie ahead. 2011 was the first full year we operated under the 100 percent direct lending rule. I want to congratulate many of you on an extraordinarily successful transmission. Just over $100 billion in direct loans went to 11.5 million students last year. That represents an incredible 140 percent increase from the previous year. As a result of your efforts and your contributions, millions of eligible students were able to receive direct loans for to attend colleges, universities, and trade schools so we owe you a real debt of gratitude. Thank you for your hard work. At FSA, – please – *[Applause] At* FSA we continue to work to ensure that borrowers receive the best quality of service for their direct loans. Currently, our federal loan services manage 24 million active borrower accounts and we have agreements with about 28 not for profit agencies to assist us with loan servicing in the future. In addition to the successfully transitioning out loan programs, we experienced record growth in the federal Pell Grant program. Last year, over $35 billion in Pell Grants went to 9 million students. That is an 18 percent increase in the Pell Grant volume in just one year. The jump in Pell Grant participation is due in part to the decline in the economy and the weak jobs market. But one good outcome of the economic turmoil is more American's have been enrolling in college for post-secondary education and job training. The rapid growth in the Pell program has also created its own challenges. We have experienced shortfalls in funding. To reconcile this issue, tough choices had to be made, very tough choices. One of which resulted in the elimination of the second Pell Grant in an award year. While we have returned to a single Pell Grant, I am proud that we were able to preserve the maximum Pell award at $5,550.00 for our students. If all that wasn't enough for FSA – feel free to applaud at any time. This is also the year when we began the implementation of a gainful employment, rate requirements. No one's applauded. *[Laughter]* These regulations seek to improve the integrity of the Title 4 programs and also provide better consumer information to students and families. Over the course of this year, there have been several milestones in gainful employment. July 1st mark, when many of you began disclosing information on you GE programs, October 1st was when you were to report student level data on these programs. And this spring will be the first time we publish informational rates for schools with gainful employment programs. Like with anything new, it takes time to work through a transition and become accustomed to the change. We understand this is a new, complex requirement and we appreciate the time that it's taken to compile this data. This week, we are presenting several sessions on gainful employment disclosers reporting and metrics. And for those of you with eligible programs, please take advantage of that. Sessions will be offered multiple times and our subject matter experts will also host two question and answer sessions. Take advantage of these opportunities and if you have GE programs, again, please be sure to plan on attending the gainful employment regulations break down session later on this morning in this room. These successes and the ability to meet challenges would not be possible without your hard work and your commitment. So again, thank you for what you do. Looking ahead, we are intent on meeting President Obama's goal that by 2020, America will once again have the highest college attainment rate in the world. Secretary Duncan has called the 2020 goal the North Star of our higher education policy. It is an ambitious goal and we will continue to strive to meet it by relentlessly seeking new ways to improve our business and concentrate on our student customers. Last year, federal student aid created a new office solely focused on the customer experience throughout the student aid life cycle. From aid application to loan repayment, enhancing customer service including far reaching improvements to the FASFA on the web such as enhanced skip logic and the IRS data retrieval tool. For the 2011/'12 application cycle 19 million applicants have benefited from these improvements. The time for completing the online form has dropped by a third from 33 minutes to 22 minutes. It's just wonderful. We also recently introduced our new loan consolidation initiative for borrowers with multiple loans held by multiple services. The initiative will offer eligible borrowers one-quarter percent interest rate reduction and other incentives to consolidate their privately held fell loans into direct loans. We have also proposed moving forward the 2014 income based repayment plan changes to provide additional assistance to student loan borrowers. At a time of deficits and tight budgets, this work cannot be just about increasing access and affordability. We are committed to strengthening our program, monitoring over sight efforts, and we take the charge of protecting students and taxpayers' dollars very seriously. I know that we share a common commitment to administering the financial aid programs with the highest standards of integrity. We are taking steps to enhance the security of personally identifiable information. You may notice two sessions on two-factor authentication. For effect, our CIO had requested that sessions be held near the Lion's habitat. You might have seen a slide up earlier. If you did, you know what I'm talking about. I do think that was a bit much, though, so I do encourage you to attend the training, find out more about these security measures and where we're heading in the future. This is gonna be an exciting week. Something for everyone from our first time attendees to our veteran financial aid professionals. You may have notice there have been some changes to our agenda from the past conference. Specifically, there are only two general sessions this year as opposed to a daily general session. Last year, we reviewed the evaluations and took the hint. Yes, we were listening. The federal update is actually today and will immediately follow Secretary Duncan's remarks. I encourage all of you to visit the PC lab and the Ask a Fed table for one on one assistance to your questions and concerns. For conference updates, you may also follow us on Twitter. I wish I could tell you how to do that, but I don't know where to start. *[Laughter]* But if you know what that means, you're in good shape. We're now so web savvy in the FSA that we even have a mobile friendly website. You may scan our QR code on the back of your conference program. I've been able to find that – it's right here and if that's a help, please take advantage of it. I hope that you enjoy the training sessions this week and I hope that you're able to meet other financial aid professionals to share information, ideas and best practices. I'll be looking forward to talking to a lot of you about your best practices. Now, we'll close this session and thank you for again, everything that you have done to help us to the successes that we had last year, and we need to call on you again to make us as successful as we go forward this year. Thank you very much. *[Applause]* Now it is my great honor to introduce our next speaker. Arnie Duncan was nominated to be Secretary of Education by President Barak Obama who was confirmed by the senate in January 2009. Prior to his appointment of secretary of education, he was CEO of the Chicago Public Schools from June 2001 through December 2008 and was the longest serving big city education superintendent in the country. Arnie is passionately committed to dramatically acceleration and attainment in the United States and he believes that education is the civil rights issue of our generation. Education is a civil rights issue of our generation. Remember that. And please join me in welcoming Secretary Arnie Duncan. Arnie.

[Applause]

Arnie Duncan: Good morning. Jim, thank you for kind introduction. Jim's a good friend and a great partner and he and the FSA team are just doing an amazing, amazing job and it's great to be back at the FSA conference. And I want to second Jim's remarks about the extraordinary job that financial aid administrators working with the Obama administration have done to advance access, affordability and attainment over the past three years. Both the effort and the results have been amazing. Now, I'll talk more about that in a moment but my chief message today is a sobering one. I want to ask you and the entire higher education community to look ahead and to try and think more creatively and with much greater urgency about how to contain the spiraling cost of college and reduce the burden of student debt to our nation's young people. Our administration is taking a number of important steps to reduce the net price that students and families have to pay to attend college and the amount of student debt that individuals have to take on. Over the last decade, the net price of college has risen nearly six percent a year after inflation, yet in the last three years, thanks largely to a dramatic expansion and federal aid and tax credits, net tuition and fees paid by students at two year institutions and non-profit four year institutions, both together, have actually declined in real terms. That progress is an encouraging sign. But I believe that we, as a department, can do much, much more to help contain the price tag of college and reduce individual student debt. And I believe that post-secondary institutions and states also have yet to fully tackle the cost containment challenge in a comprehensive and sustainable fashion. This is not just a job for any single stakeholder, though all of you must be a huge part of that solution. The truth is that this is a collective challenge. And a test of our commitment to the American ideal of education being the great equalizer. As President Obama says, "In the United States of America, no one should go broke because they try to go to college". I know there are no simple solutions, no silver bullets here, but the difficulty of reducing the price of college and student debt cannot become a discussion ending excuse for inaction. Containing the cost of college and student debt will always be some of the most controversial and thankless work in all of higher education. There are no ribbon cutting ceremonies and named chairs for college leaders who increase productivity and efficiency on their campus. There are no big award banquets for the college president who does more with less. Now, there's some who will tell you that controlling college prices and student debt in higher education is mission impossible. They point to the so-called iron triangle of higher education. Nearly every college president and governing board seeks to simultaneously improve quality, increase access and also constrain costs. It's true that these three sides of the iron triangle – quality, access and cost – sometimes seem like mutually conflicting choices. Elevating quality can raise cost. Expanding access can also raise cost because additional services and assistances to students may be necessary and reducing costs might impair both quality and access. Yet, I don't believe that this challenge is higher education's mission impossible. And I want to encourage you to take back your campuses. The idea that productivity and accountability can be reform tools that can help post-secondary institutions break out of that trap of the iron triangle. With higher productivity and better accountability, institutions of higher education can boost both quality and access and constrain cost all at the same time. In the era of the knowledge economy, the urgency of controlling college costs is not at odds with the urgency of increasing college attainment. Both goals are necessary if society is to do all it can to help more American's succeed and thrive in a globally competitive job market. The contours of today's costs and price challenge are no secret. Three in four Americans today now say that college is too expensive for most people to afford. That belief is even stronger among young adults, three fourths of whom believe that graduates today have more debt than they can manage and we need to listen very, very closely to those worries, to those fears. Those concerns reflect a changing economy which college has become ever more important and ever more expensive. From 1995 to 2007 the net price of college for full time undergraduates after adjusting for inflation rose 48 percent at for profit schools, 26 at public two-year institutions and 20 percent at public four year institutions. And as all of you know, state spending on higher education is one of the biggest drivers of tuition growth at public institutions. When states confront major budget shortfalls, as so many are today, they all too often cut higher education funding to meet the states balanced budget requirements. Public IHEs, which three in four college students attend, then hike their tuitions to make up for the reductions in state funding. As a result of tuition growth, college seniors with student loans now graduate with an average – an average – of more than $25,000.00 in debt. In 1996, that figure was closer to $12,500.00 so basically, over the past 15 years, that debt level has doubled. Despite this increase in student debt, no one questions that student loans are a critically important tool and a vital investment for students and for our nation. Students with bachelor degrees, for example, are now projected to earn about $1 million more over their lifetime than students with only a high school diploma. Yet there's also little doubt that for too many students and families, the cost of college is a serious and a growing problem. These financial pressures, including the burden of defaulting, are not just numbers on a notice or a bill. They have lasting implications in the lives of young adults and left unchecked, they pose a great challenge to the promise of equal opportunity in America. Think of the single mom who has trouble buying the car she needs to go to work or to take the kids to school. Think about the young man who's out of work and draining his meager savings to pay off his college bills while living with his parents. And for students who default on their loans, the consequences are even more painful. A default may mean they cannot buy a home, rent an apartment or in some cases, even get a job. While income based repayment and our pay as you earn proposal will help make student loan debt more manageable and provide an alternative to loan default, high levels of debt with long repayment periods can still sharply limit opportunities years, years after young people graduate. Reducing student debt is not some abstract cost for the president and for the first lady. Neither of them were born with a silver spoon in their mouth. They were not shouldering the privilege. By the time both the first lady and Obama graduated from law school and married, they had $120,000.00 in debt between them. And as President Obama says, "We combined and we got poorer together". It took them almost a decade to pay off all of their student debt. In fact, they paid more each month for their student loans than for their mortgage and the president says he has never forgotten the craziness of having to pay off multiple loans with different terms to five different loan agencies each month. He knows there has to be a better way. And that's why he recently announced steps to consolidate loans for split borrowers. The president also knows that if it wasn't for the tremendous progress we made in expanding access and making college more affordable, our cost and debt problems today would be even worse. A decade ago, the federal government provided a third of undergraduate grant aid. Today, we now provide half of all undergraduate grant aid. In the last three years alone, the number of Pell Grant recipients enrolled in college has jumped almost half. From 6.2 million to roughly 9 million. In the same time frame, the value of total grant aid in federal loans per student increased by about 30 percent in inflation-adjusted dollars. The underappreciated changes to the American Opportunity Tax Credit made in 2009 also lead to a huge jump in tax credit and tuition deductions of more than 80 percent per qualified student. And we've seen a remarkable increase in FASFA applications, which have shot up almost 50 percent since 2008, thanks in part to our simplification of the FASFA form. As all of you know, the form itself used to be a barrier to college entry. That was absolutely crazy and I'm thrilled we were able to make it much easier and quicker to fill out. All told, federal support for increased college access has expanded more in the last three years than any similar period since the years following the passage of the GI bill in World War II. And I know many of you are worried about the budget situation in Washington and the aftermath of the super committee's inability to reach a budget agreement. And I'm worried with you as well. It's still too early to know whether this will actually result in automatic sequestrations in 2013 or not, or whether sequestrations would affect higher education budgets. But please know that we are absolutely committed to working as hard as possible to obtain the funding needed to sustain the Pell Grant program. As I mentioned earlier, and as Jim Manning discussed, I can't applaud you enough for your amazing accomplishments and expanding college access and affordability. Yet the question also remains, "Why has this tremendous expansion in student aid not been matched by equally dramatic progress in containing college cost and student debt?" Part of the explanation has to be that the higher education system provides few long-term incentives to control student cost and debt. In tight times, states have little incentive to insist on efficiency because they know public colleges and universities ultimately can charge higher tuition fees to make up for reductions in state funding. Too many universities today actually have a perverse incentive to invest in expensive, non-academic perks to drive rankings in trying to track students. Like building gilded athletic centers and residential dorms. The New York Times calls this phenomenon Jacuzzi U. Forbes Magazine asked recently, and only half-jokingly, can a university be a great university without a rock-climbing wall? In the face of an economic downturn, many universities have traditionally battened down the hatches, freezing hiring or putting new facilities on hold. But as Ben Widaski and his colleagues point out in their book *Rethinking Higher Education*, most post-secondary institutions have largely failed to undertake a fundamental rethinking of faculty roles, the use of technology, and student learning measures, which should be the hallmark of serious campus reform efforts. Now I would be the first to admit that reimagining how higher education organizes and delivers instruction and assesses learning, is a huge challenge. It's not easy to reduce the mission creep that drives many college leaders to maintain the institutional status quo, no matter how outdated that might be. President Woodrow Wilson, who also served as the president of Princeton University, once reportedly joked that changing the curriculum is like moving a graveyard; you never know how many friends the dead have until you try to move them. So in the time I have left, I'd like to talk for a few minutes about steps that the federal government, states, communities and institutions of higher education can take to contain college costs and student debt while still expanding access and also improving quality. At the federal level, we're seeking to follow three simple, three basic principles. First, we want to help Americans better manage student loan debt, capping monthly payments on what people can afford. We call it our "pay as you earn" proposal, because it builds upon our existing income based repayment plan. Second, we want to insure that students know before they owe the financial implications of a loan by increasing the transparency of both loan costs and grant requirements. And finally, by gathering the information on whether for profit and other colleges are preparing students for gainful employment. We want to encourage students to pursue a college education and achieve success in the job market without being saddled with unmanageable debt on a federal student loan. Some of this, frankly, is a little more than common sense. By contrast, perspective students today often receive jargon laden financial aid award letters that make it hard to compare their financial aid offers side by side. Information about the total debt, interest and monthly payments of student loans can be unclear or not included at all. And that's why our department has teamed up with the consumer financial protection bureau to create a financial aid shopping sheet or model disclosure form. Colleges can use it to help students understand and thoughtfully compare the type and the amount of their different aid packages. College prices should be much more transparent than they are today both to help students make smart decisions and to help them avoid getting loaded down with unsustainable debt. And that's one reason why congress is required, and our department has started posting, annual tuition watch lists that show which colleges have the highest and the lowest tuition and net prices. And it's why colleges are now required to post net price calculators on their website to help students figure out the real cost of college after taking account of aid and to avoid confusion over misleading sticker prices. It's similarly makes sense to reduce monthly payments to what students can afford, given the difficulties a large amounts of debt can create both for students and for their families. The administration's new repayment proposal called the "pay as you earn" plan, builds under IBR changes. It will give about 1.6 million students the ability to cap their loan payments at 10 percent of their discretionary income beginning in the new year and it would forgive the balance of their debt after 20 years of payments instead of after 25. In practical terms, those 1.6 million Americans could see their loan payments go down by literally hundreds of dollars every single month. And for those borrowers who enter low paying but critical public service careers including teachers, remaining loan balances will be forgiven after 10 years – just 10 years – of repayment. We want people to be able to follow their hearts and follow their passions and not just chase a big paycheck because they have to pay back their loans. We don't want to lose that talent. In the higher education community, visionary leaders are also taking step to control college costs and net price. They are radically redesigning forces and making smarter use of technology and to cut costs while accelerating learning. Dozens of colleges and universities have either cut or frozen tuition, or provide a four year graduation guarantee where the college agrees to cover the extra time it takes a full time student to graduate. The University of Oregon in Eugene launched Pathway Oregon in 2008. It guarantees the qualified instate students from low income families can attend the universities tuition free. Next year, Duquesne University in Pittsburgh is offering a 50 percent discount in tuition fees for all freshmen who enroll in their school of education. At the University of Charleston in West Virginia, university president Edwin Welsh is looking to accelerate the time to a degree while still containing cost. Already, more than a fourth of students there who come to school as freshman and stay through graduation complete their degrees in less than four years. Next year, tuition for incoming freshman and transfer students will be cut by 22 percent. In Florida, all public colleges are now required to provide a fixed four-year tuition rate for up to 30 credits per year. And in Ohio, Ohio State University froze tuition for state residents from 2007 through 2009. None of this is easy. None of it's easy, but it is getting done. Even more ambitious, our efforts to boost productivity and learning by redesigning courses and reimagining the use of technology in the classroom. That kind of innovation requires looking beyond traditional institutional silos and the ability to anticipate the needs of education in the future. As Henry Ford once said, "If I would have asked customers what they wanted, they would have told me they wanted a faster horse". To truly contain the cost of college while expanding success, higher education doesn't need a faster horse. What we need is the educational Ferrari of the future. To give just one example, the century old practice of awarding degrees based on seat time in the classroom rather than on demonstrative competence, is now at odds with the world in which the internet offers perpetual opportunities for learning and gaining skills at your own pace. That is a theory of Western Governors University founded by the Governors in 19 western states in 1999. WGU is an affordable online non-profit institution that measures the success of its 29,000 students, most of them working adults, not by credit hours but by demonstrative mastery of a subject. Whether it's an information technology, nursing, the field of business or preparation to teach. Also, think about the possibilities for porous and curriculum redesign, including the tremendous potential of high quality, open educational resources. The National Center for Academic Transformation has evaluated and pioneered the redesign of high enrollment courses at more than 100 institutions. Its first round of course redesigns at 30 institutions reduced the cost of courses by almost 40 percent compared to traditional courses, while improving student learning and retention. Working with faculty NCAT helped to redesign whole courses, not single classes, and they introduced innovative uses of instructional software and web based learning resources to ensure the students mastered specific learning goals. NCAT's transformational initiatives are very much in keeping with our departments open educational resources initiative. In partnership with the Department of Labor, we're supporting displaced workers by providing community colleges with funding to develop up to $2 billion of high quality, online instructional materials available to anyone in the world for free. Open educational resources are just beginning to spread. South Korea, today the world leader in college attainment, is planning to digitize its textbooks by 2015. Here at home, the Washington state board of community and technical colleges has launched an open course library that provides curricular resources for the states 42 courses with the highest enrollment. In the long run, open educational resources had the potential to be the biggest equalizer of access to cutting edge knowledge and information since the creation of the public library. They have the potential to not only accelerate and to personalize learning, but to reduce cost at the same time. In fact, Carnegie Melons rigorously evaluated online statistics course, students learned a full semesters worth of material in half as much time and performed as well, or better, than students learning from traditional instruction. At four-year colleges, students today spend about $1,100.00 a year on textbooks and just think of the cost savings if all, or most, of those textbooks were free. States are also beginning to take on the challenge of accelerating attainment and containing cost as a statewide mission. Nationwide, 26 states have set goals for the educational attainment of their adult population and number of state strategic plans include language about containing college costs. We've released a college completion toolkit that lays out steps that states can take to improve their college attainment rates and to reduce costs. Now, I was recently in Oregon where they have set a goal that 40 percent of their residence will have a bachelor's degree or higher by 2025 and another 40 percent will have an associate's degree or certificate. To be on par with the nations with the highest attainment rate, Oregon projects that its public institutions will need to increase its annual production of associate and bachelor's degrees by about 66 percent. In Colorado, all institutions of higher education must publish individual performance contracts and support the states strategic plan. And funding is based, in part, on achieving those goals. I think the goals for improving graduation rates of individual institutions are too modest in Colorado. But institutions like the University of Colorado at Boulder have set and met the goal that low-income residents, first time, full time students will receive grant and work study financial aid to cover 100 percent of tuition, fees and books and to be debt free. The truth is that every state and institution of higher education should be spelling out ambitious, but achievable, goals to sustainably boost completion, and to control the growth in college costs. Earlier this month I was in Louisville, Kentucky. They have formed a fantastic communitywide coalition called 55,000 degrees that includes the mayor, leading business figures, and educators. They are working in high schools, in middle schools, in churches, in barbershops, in beauty salons. They have set an explicit goal to producing an additional 55 thousand college graduates in Jefferson County by 2020. That would consist of 40,000 additional bachelor's degrees, and 15,000 associates' degrees. And those aren't some random numbers, random goals. They represent the number of additional degree holders that Louisville projects it needs to stay economically competitive with peer cities in their region. And they are not just articulating a toothless goal. Already, the city's public/private partnership has created a consortium of local employers who are making commitments to help their employees pursue higher education. Everyone there is rallying behind this effort. And I can't close without pointing out that financial aid administrators also have a vital role, a critical role to play in controlling college costs and student debt. Student aid can no longer be only or primarily about increasing access to post-secondary education. Our students and our institutions of higher education need financial aid administrators to innovate and help us lead the way in making post-secondary education more productive. And let me give an example. About one in seven students, who earn a degree today, take more credits than they actually need to graduate. And those excess credits lengthen the time to graduation. They also drive up dropout rates and the cost of college for both institutions and for the students themselves. Officials in West Virginia came up with an ingenious idea to reduce the problem of excess credits. When they designed their states version of the Hope Scholarship Program, they found that in other states with similar performance based scholarships, students weren't required to take a big enough course load to graduate in four years. So they altered the performance requirements for student aid. In West Virginia's program, student are required to take enough courses each semester to graduate on time. A follow up analysis of the program, found it raised on time graduation rates by almost seven percentage points. Other colleges and universities are similarly innovating by experimenting with the performance based scholarships and emergency aid to keep students from dropping out with unmanageable debt and no degree. In the end, we need to start a national conversation of what makes sense to improve college completion rates while controlling costs. And we need the expertise and the creativity of financial aid administrators to help drive that national conversation. To help move the conversation, the Obama administration is pursuing several initiatives. We are proposing to replace the current Perkins Loan program scheduled to expire in 2014 with a new and an improved program that would provide Federal support for campus based, low cost student loans to many more institutions. Funding would be allocated to colleges based not only on the financial needs of students, but also on the performance on the institutions in graduating their Pell Grant recipients. Our proposed college completion sentigrants would award states and award institutions for undertaking systemic reforms that increase the number of students who complete college and that close achievement gaps. And finally, our First in the World fund would support institutional programs that use innovative practices to accelerate learning, boost completion rates, and hold down tuition. I've discussed all these examples of innovation at some length, because farsighted leaders in higher education and in the states are helping to point the way to challenging the current status quo. They are demonstrating how to do more with less. These visionary leaders are committed to transformational change, not to tinkering around the edges. They're committed to sweeping innovation, not reforming isolated silos. They know that fundamental change takes courage and moves everyone outside of their comfort zones. Together, our challenge is that these promising innovations for controlling costs are still the exception. They must become the norm. Our students deserve no less. And collectively, with your commitment, and with your creativity, I believe we can succeed in containing the growth of college cost and student debt. Working together, our department, states and institutions across the country, we can help achieve President Obama's goal that by 2020, America will once again lead the world in college attainment. Thank you so much for all that you do to keep the dream of a college education within the reach of every American. Thanks for having me this morning. Have a great conference.

[Applause]

Jim Manning: Thank you, Secretary Duncan for those insightful remarks. As I mentioned earlier, we took a long hard look at evaluations from the last few years, which indicated that we should provide the federal update earlier in the conference. You spoke. We listened. Now please welcome FSAs very own policy brat pack. Jeff Baker – I don't know which one he is, but it's Jeff Baker, David Bergeron – probably the chairman of the board – and Dan Matella.

[Applause]

Dan Matella: I've quit smoking.

Jeff Baker: Morning, everyone. Thanks very much for joining a few of your close and personal friends at our meeting this morning. So as Jim mentioned, we had been doing our federal update at the end of the conference as kind of a wrap up, but your evaluations clearly said that you'd like us to kind of go over the high points, give you a hint of some of the things you might want to look at and attend some of the interest sessions. So here we are. There's a lot of material that we're gonna rush back and forth and provide to you. A lot of it you're aware of, you've seen before in presentations or in *Dear Colleague* letters or other publications will try on the slides to remind you of the sessions where you can get more information about these topics and we're posting this federal update on our website after we get back from the conference. And then on Thursday morning, there will be our town hall meeting where you'll have an opportunity to ask a whole bunch of us questions of issues that might have come up during your conference. So let's just jump right into it if we will.

Dave Bergeron: So good morning. As Jeff said, and as Jim indicated, you know we've been doing a lot of listening and thinking about what you've said to us over the last couple of years. And one of the things that we heard about from you is some desire to do some additional experiments under the – experimental sites is the wording of that, is provided in the higher education act. It gives the secretary the authority to do some things differently, try some things out and see if we should make changes either in the policy around our financial aid programs, or around some of the operational issues. And we – through a variety of means, a federal registered notice and more importantly, some interaction at conferences over the last 18 months or so. I got some input on some experiments that we should pursue and so we published a notice back on October 27th where we indicated that we would be soliciting requests to participate in one or more of eight experiments. The deadline to give us your notice of intent to participate in experiments is on December 12th, just a couple of weeks from now. One thing to keep in mind as we go forward with these experiments is they're really different than the experiments we have pursued in the past. These are not burden reductions, but really, to look at alternative results, ways to achieve results in our aid programs and so when you look at them, they're very different. Jeff will describe the specific experiments in a minute, but the common theme of these experiments is that they're going to have more rigorous evaluation tools. In some cases, they'll have experimental and control groups of some form, and there will be additional data that we receive from your institution and that we will analyze to draw conclusions about on whether we should make some of the policy or operational changes that are envisioned in those experiments.

Jeff Baker: As a reminder, we posted an electronic announcement a week or so ago, we're not asking you to provide any kind of – to submit any kind of proposal. We've actually given you the proposal, and you just need to let us know if you're interested in participating in the experiments. There were eight experiments that we listed in the Federal Register Notice and summarized in our announcements. One has to do with student eligibility. This would be a waiver of the general requirement that a student cannot receive federal student aid while simultaneously enrolled in both high school and post-secondary education. This would be limited to students who are enrolled in approved transition programs, students with intellectual disabilities who are enrolled in approved transition programs. The whole concept of a transition program is to transition between high school and college so we want to see if we can experiment on what happens if we provide financial aid to those students. In the Pell Grant program, we have two proposals, two experiments we're asking schools to think about participating in. One has to do with the student eligibility. As you know, for all of these years with Pell Grant, with one exception for some teacher training programs, a student with a bachelor's degree is not eligible for a Pell Grant. This experiment would provide that students with bachelor's degrees could get a Pell Grant for attendance in a short term one year or less vocational program. This would be designed for students who are unemployed or underemployed in spite of the fact they have a bachelor's degree. They'd be able to get a Pell Grant for some very targeted vocational programs. And the second one on Pell Grant has to do with program eligibility. There's a time – both in terms of credit hours, clock hours or weeks – a minimum length for a program to be eligible for federal Pell Grant. But again, in order to provide vocational or career training we want to experiment with having short-term programs to be eligible for the Pell Grant program to see if we can get low-income students the kind of training they need to immediately move into the job market. Then we have direct loan experiments. We have four of them. One is to allow for a single disbursement of a one-term loan for study abroad students. That's already possible and at current, the fall rate is under five percent, but we know that's harder and harder to meet that threshold so we want to propose an experiment that would look at that more broadly. Also, for students enrolled in study abroad or at foreign institutions enabling them to get their direct loan disbursement up to 30 days before the beginning of classes as opposed to the traditional 10. That's an experiment we'd like to have schools participate in. Mentioned unequal disbursements, generally, of course the law and our regulations require substantially equal disbursements of direct loans, but there are circumstances where a programs upfront cost would make better sense to provide unequal disbursements with more money at the beginning to allow the student to get into the program and to be successful. We're also interested in looking at the possibility of allowing schools to have a much broader authority to reduce loan limits. You've been asking for that for a very long time. The statute does not allow it, but under experimental sights we can test it and so we've got a rather extensive – and you need to look at the Federal Registry very carefully – a provision that some schools would be allowed to have an across the board reduction in maximum, unsubsidized loans. And then finally, again, for students with intellectual disabilities, under the statue, those students are not eligible to participate in a loan programs, but because of the way that is constructed, neither can their parents get a Federal Plus loan. And we think that's something that needs to be looked at, so we're offering that as a possible experiment. So by December 12th, as Dave had mentioned, in the Federal Registry notice it gives you an email address – send us a letter indicating your interest in one or more of the experiments. While we want serious requests, you're not committing your school just by sending in the letter. We will take all of the schools of interest and choose a selected number that we'll work further with to eventually approve and change your program participation agreements.

Dan Matella: As Dave had mentioned, we'd been thinking and rethinking broadly about how we go about doing our business and one area there is, with respect to our guarantee agencies and voluntary flexible agreements. Now, why are we doing this? Well, because we can. We have authority on the statute that allows us to negotiate with guarantee agencies different means for determining the amounts of payments that we make to them, but more importantly, the current statute basically has a payment rate or a contract rate, essentially, that is based on loan volume, based on loan volume guaranteed, based on guarantee agency portfolios. And you know, everybody in this room knows what's happening to guarantee agency portfolios. They're not growing and will continue to diminish. However, we still believe – very strongly –

that guarantee agencies perform vital functions for our borrowers and our programs and we want to find ways to make sure that they can continue providing some of those services and activities and functions for us. So we have expanded our use of the statuary voluntary flexible agreement to allow guarantee agencies to propose to us kinds of tasks that they would be willing to do on our behalf for negotiated prices, not basically a fixed price contract. So we are in the process of reviewing these proposals from the guarantee agencies and a little later this spring we will likely finalize those and again, move forward with the guarantee agencies helping us with various activities. Those activities – obviously we still have hundreds of billions of dollars in FFEL program loans outstanding. There are various claims that guarantee agencies will continue to have to process and pay. There will continue to be work for guarantee agencies to do in the default area. Again, this has everything to do with a diminishing, but still very large, FFEL portfolio. Default management and prevention – obviously very important functions for our borrowers and for our schools and I think most important for a number of us is the community outreach and the training and oversight that our guarantee agencies provide to schools as well as lenders.

Dave Bergeron: As the secretary indicated in his remarks, this administration's been very concerned about helping borrowers and we've announce in the last couple of weeks a number of initiatives in order to help borrowers who are having difficulties at this particularly difficult time. One of the most significant ones was announced by President Obama in Denver just a few weeks ago, relates to our special loan consolidation program that we're gonna offer to borrowers. As you know, under the current – what we call regular direct consolidation program, borrowers can consolidate any of the federal student loans. Current direct loans, Perkins loans, health professions loans and FFEL loans. And those new consolidation loans repay the underlying loans that are being consolidated. There's a new repayment term established for those loans and most significantly, the loans have an interest rate that is fixed over the life of the loan based on the weighted average of the interest rates rounded up to the next one-eighth of one percent. Under the special direct consolidation loan that the president announced and that the secretary mentioned, we will providing an opportunity for borrowers that have loans that are held by ed and a fell lender an opportunity between January and June to consolidate their loans under a special program. These borrowers are borrowers that have a loan that we held either one that we acquired under one of the various loan purchase programs or a direct loan and they have at least one commercial FFEL loan that has not been consolidated that is not an ed held loan. Under that approach, under that special program, the FFEL lender would have their loan paid off, but the underlying loans would maintain their identities, they would have their same terms, conditions and dates. There are a number of benefits that will be provided to the borrower as a result of their consolidation under this special program. First of all, they'll have a single holder, servicer and bill and they will be able to make one payment. Also significantly for many of you who have followed developments in the student loan programs over the years, these loans will maintain their current terms and conditions. The one change that will occur is that the borrowers will have their interest rate reduced by a quarter of one percent and we will retain the ability for those borrowers of having their interest rate further reduced by the use of electronic funds transferred in making student loans. And these loans would have access to public service loan forgiveness. Over the next several weeks, we'll be finalizing the arrangements for our loan servicers who will be directly contacting the borrowers with eligible loans so that they will have information about this opportunity to consolidate under this special program. There are real significant benefits to students who – borrowers who do this and we look forward to providing them some significant benefits through this special consolidation program.

Dan Matella: You heard the secretary mention a few moments ago how our new "pay as you earn" repayment plan and here's how we're going to go about implementing that. First, though, we do have an existing income based repayment plan provided for in statute. It limits payments to 15 percent of discretionary income. Discretionary income is that amount of income above 150 percent of poverty. We'll forgive any remaining amounts of principle and interest after 25 years of IBR repayment. Now, the SAFRA legislation, same legislation that moved us to 100 percent direct lending, also provides for modifications to the income based repayment plan, lowering the maximum payment amount to 10 percent of discretionary income and lowering the forgiveness time frame to 20 years. But those provisions are not effective for another several years, in 2014. So we're going to take a regulatory approach to implement these IBR changes a little bit earlier and the regulatory approach is through our income contingent repayment plan. Now, ICR for direct loans – we've had this for oh, 15, 16, 17 years, something like that. I think 1994 we first regulated this. And basically, it is for direct loan borrowers only. It's a rather complex formula. Unlike IBR, which is single dimension income, our ICR formula's two-dimensional. It looks at both loan amount and income. And so we do have a formula. It's hard to explain, but we have good computers and clever programmers so we are able to calculate these amounts and the amounts are forgiven after 25 years of repayment. Our experience over the years has been a very limited take up rate on the ICR plan and so again, what we will be doing over the next several months is revising our RCR regulation in a way that mimics the new IBR provisions. So we're going to accelerate the new IBR provisions through a regulatory process, and again, by reducing the existing 15 percent maximum payment in IBR to 10 percent and reducing the forgiveness period from 25 years to 10 years. I'm sorry, to 20 years. Again, this is a regulatory process and for our Title 4 programs – that means they negotiated rule-making process and we will commence this rule making process in early part of next year. Mid-January is when I think we kick this off.

Dave Bergeron: A budget act signed into law back in August made a couple of changes to the direct loan program that we wanted to highlight for you this morning. Those two changes in the direct loan program relate the loss of eligibility for subsidized loans for graduate and professional students and the termination of direct loan borrow/repayment incentives. Dan, do you want to talk about the subsidized loan change?

Dan Matella: Yes. So for loans made for loan periods beginning on or after July 1st, 2012, graduate and professional students will no longer be eligible for subsidized loans. Now again, that is loans beginning on or after next July 1st. We are not unilaterally changing the terms of conditions of existing loans. So existing graduate and professional borrowers with subsidized Stafford loans, they retain those benefits on those loans. Even when the eligibility for the in school subsidy goes away for these students, there is no change on the maximum borrowing amount, our annual limits nor lifetime limits. Again, it's about eliminating the in school interest subsidy for graduates and professional students to save money in our student loan programs that we use for other purposes, notably, maintaining the $5,550.00 Pell Grant maximum for the current year. Now, we'll make sure that these new statutory provisions are followed via our typical ordinary and usual student loan processing through the common origination disbursement system.

Jeff Baker: The other change that Dave had mentioned under the budget act was to eliminate repayment incentives. The congress – looking for some monies to help with the Pell Grant and other places. This is a slightly different terms of the effective date, it's for loans first dispersed on or after July 1st 2012. That's a little bit different than for loan periods, so you need to be cognizant of that, but for loans first dispersed on or after July 1st 2012, we will no longer be providing what we call our "upfront interest rebate", which is an interest reduction based upon an expected future performance of the borrower. We give it up front to give a little bit more money to the borrower while they need it while they're going to school to pay educational expenses, and then they earn it by making their payments on time once they get into repayment. We will, unfortunately, have to cease doing that for loans first dispersed on or after July 1st 2012 and similarly to the COD system, our origination system will have the software provide in it to ensure that the right amount of the loan proceeds are calculated. The law does allow, though, for us to maintain the quarter of a percent reduction that we provide for borrowers for making electronic payments, so that will not change, both for current borrowers and new borrowers, but no more upfront interest rebate after July 1st.

Dan Matella: Well, we've talked a bit, so far this morning, about where we've been and where we are and let's take a couple of minutes to talk about where we're headed in the near term with respect to our regulatory activity. As I mentioned that we – well, we do have a gainful employment rule, a proposed rule, that we pushed out a little bit earlier this fall around requirements related to gainful employment for new programs that institutions established on their campuses. So we did publish that rule, provided for a comment period. Comments were due a couple of weeks ago and we anticipate having the final rule sometime this winter. Again, this was largely a follow up to our gainful employment regulatory effort. Over the past year, we had a few technical details that we needed to iron out and hence this additional rule. As I mentioned earlier, starting the very first part of next year, we'll commence another round of negotiating rule making. Two groups, two teams. The first focused on student loans. Again, as I mentioned, the work that we want to do around advancing the statutory provisions related to income-based repayments, through the regulatory process, we will be undertaking that. Again, with the move to 100 percent direct lending, there is a number of rules related – especially with respect to origination and the FFEL program that we no longer need, but we also – our direct loan regulations have grown up over the years by making, in many instances, references to the FFEL program rules. So what we would like to do as part of this effort is to have our direct loan program rules, as we say, be "naturally readable", so you don't have to flip from section to section in another part of the regulation to find out what it is that you need to know. So again, try and make the direct loan programs self-contained and – the phrase I like to use – naturally readable. That came from one of our attorneys, by the way. And then we plan to do some work around the student loan discharges for total and permanent disability. The sort of connection between our regulatory requirements and our actual operational processes still have some rough edges to them and so we're going to spend additional time this winter and spring figuring out how to make sure that the contact between our regulatory requirements and our operational processes have less friction, let us say. So try and make sure that we can provide for a framework within our rules that then provides for a more streamlined and efficient discharge process. Also, in our negotiated rule making coming up, the second team will deal with teacher issues. This is kind of a bit of a following on the department has a budget proposal in our FY12 budget for a – something we were calling the Presidential Teaching Fellows. I kept thinking PTF but I couldn't remember what it stood for. Presidential Teaching Fellows – to be blunt, we're very unlikely to get a number of those policies through the congress this year, so we are gonna take a – to do as much as we can through the rule making process around some teacher preparation issues. We'll also take up some issues with respect to the existing teach grant program and also take some steps in the regulatory process to improve reporting of outcomes of colleges of teacher education for the purpose of, again, improving the accountability of our teacher prep programs at our colleges and universities.

Dave Bergeron: So last year, the National Advisory Committee and Institutional Quality and Integrity was reconstituted. It had about 18 month or so hiatus after the Higher Educational Opportunity Act was passed in 2008. One of the first things that happened with the National Advisory Committee was that they were charged by the secretary to look at our current accreditation requirements and to make recommendations around accreditation and other institutional quality issues to him by this December as a way to really give some significant thought as to how to make that accreditation system work better for our – to get the outcomes we want in higher education. So they went under, took an extensive review of the current requirements. They had a public meeting back in June and they've had some working sessions among the seeking membership over the last couple of months and back on October 31st, the committee released a draft report that will be the subject of a public meeting in just a couple of weeks. I call it to your attention because it's important for us to remember that in order for an institution, currently, to participate in our federal aid student programs, they have to be accredited. One of the significant ideas that the advisory committee has been thinking about is whether or not there is some mechanism for decoupling accreditation from institutional eligibility for Title 4 funds and to use some other kinds of performance measures or metrics as an alternative. So the National Advisory Committee meets again in just a week and a half or so and wanted to bring to your attention that there is that significant work going on, really trying to drive towards the idea that we might have some better ways to evaluate institutional performance for purposes of participating in the aid programs.

Jeff Baker: Just a little bit on cohort default rates, a very important thing for all of us. Just a reminder of what a cohort default rate is. It's the – we take your former students who entered repayment on a FFEL or direct loan, it's a combined rate, during one federal fiscal year – federal fiscal years begin on October 1st and end on September 30th. That number of students from your school is the denominator. And then we, under the two year process, we watch those students, of your former students, those borrowers, for the rest of that fiscal year and to the end of the next fiscal year. And the number of them that defaulted on their FFEL or direct loan becomes the numerator and the numerator obviously becomes a rate. The next slide shows historically where the cohort default rates have been and I think, unfortunately, towards the end, you'll see where they're going. We released the 2009 two year cohort rate in September and it was 8.8 percent which is a significant – and not only continued the upward trend of the last four or five years – but was a significant increase from the 7 percent of the year before. I think given the economic times we're in, we're going to see increases in cohort default rates for the next few years. And even if we have good economic news in the next year or two, there's a lag time on this so we'll see rates going up. Now, that's the two year rate, but in the Higher Education Opportunity Act, the congress chose to change the calculation so that we still identify the denominator as the number of students who have entered repayment in a federal fiscal year, but we monitor them not only for that year and one more but yet a year after that. We call this the three-year rate. There's nothing that will happen except that your rates will go up. They will go up and we've done some test rates the last couple of years that tell schools what their rates would have been had this been in place sooner. Now, the first year of a three-year rate will be a 2009 cohort. So it's the same cohort that we just released an official rate in September, but we're gonna look at them and we have already have actually monitored them through September 30th 2011. In February, when you get your draft rate – you'll get two sets of draft rates – the FY10 two year rate and the FY9 three year rate – and then you'll go through your exercises and then in September of 2012 we will release the official FY10 two year rate which unfortunately, if are high, could result in some sanctions to schools. But we'll also release the first of the three-year rates, the FY9, three-year official rate. Sanctions against schools with high cohort default rates on three-year rates do not kick in until there are three of them, which will not be until 2014.

Dave Bergeron: We're gonna be making some changes to the NSLDS enrollment reporting to capture some additional information about students who are receiving financial aid. Specifically, we're gonna begin to capture enrollment reporting for Pell Grant and teach grant recipients. This is important for us in order to know more about students as they make their progress through our higher education system and ultimately will allow us to calculate graduation completion rates, because we get that information, status information and the dates of those completions as part of your NSLDS enrollment reporting. We have some specific sessions where this will be discussed – session two and session three in the conference programing. You look for when those are being offered and if you want additional information about that, you'll be able to get that there. Over the course of the rest of the session, we'll highlight some breakout sessions on various topics with the session numbers so that you can take note of them and attend those sessions.

Jeff Baker: And to that end, and leading to benefit reporting and – so I don't forget –we have a session number eight, which will cover a number of things in COD but including this requirement. This requirement was effective for the 11/12 reporting – the year we're in now – whereas if you award federal aid to a student who does not have a high school diploma, then you must have done it based upon one of the ability to benefit statutory and regulatory requirements. That is, they were either homeschooled, they passed an approved ability to benefit test or they had demonstrated ability to benefit by having completed a six credit hours or 225 clock hours. You need to – should have been – and you need to be reporting that in your COD record when you submit that for the Pell Grant, the direct loan or the teach grant. One thing we discovered, we did a quick analysis, I think some of you are missing a point. We have way too many indicating that the student completed the six hours. I think some of you may be doing that regardless of whether the student has a high school diploma or not. You only do this if the student would not be eligible unless they completed the six hours, so pay a little attention to that. When you get back, take a look at our *Dear Colleague* letters on that.

Dan Matella: I want to talk a minute about the campus based programs and the calendar for the allocation and the use of funds. As you know, we announce a tentative allocation in the winter; follow that up in early spring with a notice of your final allocations. And even though the FISAP for the year that ended June 30th is due in October, we ask you in first part of July to let us know ahead of time about what funds you were not able to spend in the year that ended June 30th. The reason we do this is we're taking advantage of the misalignment between the award year that ends on June 30th and the federal fiscal year that ends on September 30th. So ordinarily, on September 30th, funds that are not spent are lapse. They go back to the treasury. But if you tell us beforehand, early in the summer, how much you will tell us in October you did not spend, then we can take that money and reallocate it to other institutions for expenditure on these for needy students. So again, it's critical for you to respond to that inquiry in July about what you anticipate reporting in October in terms of unexpended funds. So the important thing to look at on this slide is over on that right hand side. Again, these are funds that could have been released and could have been reallocated, but instead, lapsed and went back to the treasury -- $16 and a half million. Now, no one up here is going to say that deficit reduction is a bad thing, but the congress did appropriate for these programs about $1.8 billion and intended for that money to be used for supplemental grants and work study part time employment and that's where the money ought to be used. So again, if you can be sure to let us know early in the summer amounts that you will not be using then we can, again, reallocate those and get those out to institutions before the federal fiscal year ends on September 30th and the funds would otherwise return to the treasury.

Jeff Baker: We're not gonna go over all of these letters, but this is just a reminder that we do issue *Dear Colleague* letters throughout the year. We post them to our information for financial aid professionals website. I do want to remind you, we have a subscription service, because you are obligated by the regulations to monitor IFAP on a continuing basis. And one easy way to do that is to register for our subscription service where – and you can choose either daily or weekly – will send you an email highlighting the things that have been added to IFAP during that past week and then you can click on them and decide what you want to do. You just go to the IFAP home page, there's something called My IFAP, and you answer a few questions and we'll send that out to you on a daily or probably makes more sense on a weekly basis. But you cannot afford to miss any of this important information that we put out. This is work backwards. Since we've put this together, there's been two more letters, 19 and 20. 19 basically has to do with some forms for unpaid refunds for lenders and 20 has to do with foreign institutions. We have another one that will be posted either later this week or when we get back next week, having to do with the reported expected family contributions of 99,999 and you'll see that in a week or so.

Dave Bergeron: Yeah, and while we're on this slide, I wanted to call your attention to the general – GEN 11/17 which deals with fraud in post-secondary education distance programs. There will be a session 60 this afternoon; I think it's at 3:35, where two institutions that were very helpful to the department and our inspector general in dealing with a specific fraud ring concerns. And a represent from the inspector will be talking about their experience and talking about ideas for resolving those fraud issues in the future.

Jeff Baker: So this is another set and you know, you just have to go to IFAP and see them and then I think we decided to go back to the beginning of the year, so they're all there.

Dan Matella: Over the past year and a half or so, we undertook a significant regulatory effort with respect to program integrity. We did publish the bulk of the final rules about a year ago that then became effective on this past July 1st and then a little bit earlier this summer, in June, we published the final gainful employment metrics, or rule, again, the measures that we will use to determine if a program is indeed leading to gainful employment. Those rules will be effective next July 1st. Also, in the last round of negotiated rule making, we did do some work with foreign schools, the domestic students who are studying overseas who participate in our student loan programs and again, that has an upcoming effective state of July 1st 2012. In the program integrity regulations, again, we very – program institution and student accountability coupled with some very strong consumer protection items, again, ensuring that our programs serve the students that they intended to serve in an efficient, an effective and meaningful way. And for a little bit more detail, I'll turn it over to David.

Dave Bergeron: One correction, we would note, is that the effective date for the foreign schools reg, was July 1, 2011 so it was wrong on the slide so I want to correct that now and we'll correct it before we post this. As Dan indicated, these regulations really were addressing very significant concerns we had about the integrity of our aid programs. This went back to the beginning of the administration. As we advocated for the American Recovery and Reinvestment Act, we thought it was critically important that when those funds were being appropriated and they were funds appropriate for work-study and for Pell Grants under that Act – critically important that we build integrity into the delivery of those fund. And more broadly, there were all kinds of requirements around lobbyists and our relationships – federal officials with lobbies – but in the aid programs, we viewed it as an opportunity and a requirement that we do something significant in the area of integrity. As you saw in the slides just before this section, we've been publishing a large number of *Dear Colleague* letters responding to questions about our regulations and on other issues. As we started down that process, we realized that it would be difficult for someone who's interested in a particular topic area rather than a particular letter to know where to go find the responses to all of the questions that have been asked about program integrity or specific things like incentive compensation if we didn't catalog them and consolidate them into one easily accessible point. We posted that information. The URL is on the slide and when we post it, you'll be able to just click on that link or you can also get to that information from the IFAP page. In the top right hand corner, there is a direct link to this site so you can see our responses to all of the questions that we've responded to. And throughout the conference, we're going to be having sessions on a variety of topics that we're addressing those regulations. There's a session on the definition of a credit hour, returning Title 4 funds, state authorization and satisfactory economic progress. I'll let this slide sit for a second so you can take note of any particular topic you're interested in, but we wanted to spend the bulk of our time now for the rest of the session talking about particular issues that where there aren't breakout sessions. There are a number where we won't be talking about them at this session in any greater detail – incentive compensation, agreements between schools, misrepresentation and disbursements for books and supplies. If you have questions about those issues, certainly feel free to bring those forward when we have the town hall, but we will be spending the rest of our time talking about the high school diploma requirements, verification and gainful employment.

Jeff Baker: Right. And so in high school diploma, we had a lot of discussion at negotiated rule making and about what to do about claims by students that they have a high school diploma when they don't. And of course, fundamental student eligibility is that a student have a high school diploma, recognized equivalent, or go through some sort of ability to benefit. But what we came up with is simply this and this is a pretty good, close paraphrase of what the regulation requires of the institutions. It's simply that you had developed – and you should have done that by July 1st 2011 – a process and a procedures that you would follow if you believed there's a provision or the secretary tells you – and so far we're not there yet – if you believe that there's some question to the student's claim that she or he has a high school diploma or the validity of the institution, the high school that supposedly awarded that diploma. We purposely did not tell you what it is that should trigger that review. We don't think that schools want us that much into their business. But you just have to have a process in place and use a reasonable standard approach that if you have a question, you have to look into it to determine if the student really does have a high school diploma, and if so, is it reasonably expected that school provided a secondary school education. Now that said, starting last year, we began to ask questions on the FASFA about high school diploma. We felt that there's a deterrent effect – it was pretty easy for a student to either by mistake or intentionally or perhaps being misguided by someone else – to check the box that they have a high school diploma. It's another thing to ask them to put in the name of that high school and the city and the state. But the two bullets just in the middle of this slide are very important. We're gonna make the process a little bit better for the upcoming year. It was a little clunky. But we do not have such a thing as an approved high school list. And so there's no such thing as, "Oh, it's on the…" the student was able to find it on the drop down list when they filled out their FASFA so it must be approved by the United States Department of Education. That does not – that is not in fact. More importantly, I think, and where you need to be careful, is just because the student was not able to find it and had to type in the name of the school, does not mean we're questioning it. Does not mean that it falls into the category that you have to implement the procedures that you've established as I discussed on the prior slide. All it means is it's not in our system for a number of reasons, in particular, private schools in terms of reporting or the student wasn't able to find it. It may be there, but they use a little bit different name. So be very careful that not – we don't have an approved list or a disapproved list of high schools.

Dave Bergeron: The next couple of minutes we'll talk about verification. We made changes in our regulations to deal with verification. There are a couple of sessions that are being offered at the conference that talks specifically about verification, the upcoming customization of verification as well as the FASFA and verification changes for '12/'13 sessions. You know, we've been very clear, I think, with you over the course of this process about – and communicated with you a lot – about the changes we were making. We did an MPRM back in June of 2010 with the final, as Dan indicated, on October 29th 2010. There were some corrections made to that regulation on April 14th, and finally, we provided a notice back on July 13th of this year where we explained how verification would be done for the upcoming award year. We have also sent out two *Dear Colleague* letters on the subject of verification back in February dealing with IRS, the IRS data retrieval and in July on verification.

Jeff Baker: So let me go over, rather quickly, cuz many of you have been in sessions or hopefully read our materials and you can go to some of these other sessions. But we eliminated – beginning effective July 1st 2012, so for the '12/'13 award year – the $400.00 tolerance on differences of what was reported on the FASFA, what shows up on the ISER, and what the supporting documentation shows. There is a less than $25.00 tolerance but no longer the $400.00 tolerance. We also changed the rules so that if there's a change to be made in a data item for a student who's selected for verification, you must submit that to the PCS in all cases and not just where it will affect the Pell Grant, which had been the existing rule. And we also eliminated the 30 percent cap that institutions could choose not to verify students beyond 30 percent. The reason for those three and for all of this is about the integrity of the program and the reason why we felt comfortable and told negotiated rule making that we could do those three, is because of the technology. The technology is easy enough to make these corrections, even if it's only for $40.00 or $50.00, even if it's for more than the Pell Grant program. And on the 30 percent cap, we believe every student who's selected for verification – because our selection matrix is pretty good – should be verified because they have a very high chance of having incorrect information. Now the perhaps bigger thing we did is to move away from the regulations that were in effect and still are in effect for the '11/'12 year, that once we select someone for verification, there's five items that you have to verify. Adjusted gross income, taxes paid, number in the household, number in college and untaxed income. And we made the regulation flexible so that the secretary could choose each year what items were subject to verification, and it could be any item that could affect the student's eligibility. We're moving towards a customization process and you'll see one of the sessions a little bit later in the conference where you can come and chat with us about that and give us some of your ideas. And the idea is that our statistical model is pretty sophisticated and will get better as we gather more information and we don't want to just tag somebody for verification because they have a high likelihood of error, but then you have to verify these five things or these eight things or these ten things. We want to say, "The item or items that have a high probability of error, those are the only ones that you have to verify. You don't have to verify anything else." We're not there yet. For systems reasons – both ours and yours – but also because we need a couple more years of generating the data. So, we published, as the reg requires, as David mentioned in August, or Federal Registry notice, followed up with a comprehensive *Dear Colleague* letter of what the items are that need to be verified for '12/'13 and what acceptable documentation is. For all applicants, we need to verify number in household and number in college. Again, we may change that as we move to customization down the line, but for this year and for all applicants, food stamps, if it's reported on the ISER. Why food stamps? Cuz it's a major factor that determines whether a student is eligible for automatic 0EFC or simplified needs test. Now there are others, but we chose food stamps because as a test, it's the easiest one for a family to document. And child support paid, while it's not actually income of course paid to the family, it's a reduction and we also felt that this was very easy to document. All they had to do was write a statement as to how much they paid, who they paid it to and who the kids were. For non-tax filers, we really didn't change anything. You still have to get W2 forms and a statement from the non-tax filer, so that would be the student and spouse, the student, the student's spouse, or the parent, about other income that they had to support themselves during the year. So we didn't change very much on that. Now, I mentioned tax filers, adjusted gross income, taxes paid and untaxed income –but only these five untaxed income items –and these are the five items that are on a tax return, they are the five items that are on a transcript and most importantly, they're the five items that will come over through the IRS data retrieval tool if the tax filer uses it. So, to go back just a little bit, acceptable documentation for tax filers of AGI taxes paid and untaxed income – any of those five untaxed income – is primarily and our preference is the IRS data retrieval process as part of FASFA on the web. And as you know, the tax filer can use that – almost all of them – can use the tool when they're filling out the FASFA, but of course we also know that in many applicants, they haven't filed their taxes yet. They can go back in later –after they file their taxes and give the IRS a couple of weeks to process –go in using the corrections feature FASFA on the web, and in 90 seconds do an IRS data retrieval to either verify or correct the information that they provided on the FASFA. And we are going to encourage all applicants to do that. But if they were chosen for verification and either use the IRS data retrieval initially – by the way, if a tax filer uses the IRS data retrieval when they're filling out the FASFA, they are very, very, very, very, very unlikely to be selected for verification in the first place. But if they are selected for verification because they didn't use it probably, they go in and do the correction process and they're done – assuming they don't change the data – they are done for those items. Very important – we said it in the January letter and again in the August letter – if a person's selected for verification and does not use the IRS data retrieval or uses it and changed the data, then no more just turning in a copy of a tax return to the financial aid office. It's an IRS transcript. This is about integrity and accuracy of the information. This is about making sure that we award the right money to the right people and perhaps, more importantly, making sure that the people who are looking at our program -- $35 billion – understand that we do everything right and we are awarding money to the right people. So it's a transcript from the IRS, which we explained in the letter, the tax filer can get online, request online, over the phone, or they can get the paper form and send it to the IRS. There's only very limited situations where the paper copy of the tax return is acceptable. Right now, the only ones we can think of are for Puerto Rican filers and applicants who have foreign tax returns.

Dave Bergeron: And as Jeff indicated, our very strong preference is for students to use the IRS data retrieval process and so we consider – and allow institutions to consider – the information verified if the IRS request flag is set, too.

Jeff Baker: So we're gonna wrap up with some gainful employment things. First of all, just to remind everybody, on our IFAP website, we have a special link – you can find it in the top right hand corner – for gainful employment information. There you'll find the regulations, this new MPRM, *Dear Colleague* letters and electronic announcements. There's two or three *Dear Colleague* letters and I think we're up to 26 or so electronic announcements. Frequently asked questions – you folks have provided some very important questions that we've posted others to see. And our training, including all of the webinars that we've done – if you attended them, participated in them, that's great and whether you did or not, you can go back and go through them again and review the slides and/or actually listen to the webinar and other resources are available. Lots of sessions on gainful employment including one that John and I are gonna do just after this session, but there's others having to do with disclosures, adding new programs, reporting and then we'll do the question and answer session, too, session number 44.

Dan Matella: With respect to the gainful employment, basically, we were implementing provisions in the HEA that had been there for quite some time. To be sure, we were plowing some new ground, but the ground had been there for years and years and years. In the Title 4 basic institutional eligibility, or program eligibility, it's if it is a program that's offered by a public or not-for profit institution at least to a degree, is an eligible program – it's an eligible program also includes any program offered by an institution that leads to gainful employment in a recognized occupation. And so that's what we've been referring to as the GE programs. Another way to think about this is that every certificate program is a GE program, no matter who offers it. Every certificate program is a GE program and every degree program offered by a for-profit institution is a GE program. Again, that's very broad. That's a way to think about it. In practice, there are a few wrinkles associated with this, a couple of exceptions. For proprietary schools, again, the programs that lead to a degree in liberal arts are programs that recently established leading to a bachelor's degree in liberal arts is not a gainful employment at a proprietary institution as well as some preparatory course work that's needed for enrollment in an eligible program. Again, a couple of minor exceptions and again, also, some exceptions for public and not-for profit institutions. Again, the big one that we mentioned is that a degree program offered by one of these institutions is not a gainful employment program as well as some other shorter terms programs that are intended, essentially, as preparatory work towards a degree or towards enrollment in an otherwise eligible program, those programs, as well, are not gainful employment programs. Again, those are a couple of the limited exceptions to the general rule governing gainful employment programs.

Dave Bergeron: So as we've indicated, these final regulations were published on October 29th, 2010 and were effective July 1, 2011 now relate to program integrity – the program integrity regulations included specific requirements around disclosure and reporting and there were also a separate package of regulations just in gainful employment that were specific to new programs. And then on June 13th, 2011, we published a final regulation that identified the performance measures and metrics to define what gainful employment is for purposes of participation in the aid programs. The disclosures were due to be made on July 1, 2011. As Jeff keeps reminding people, I was the one that was up at 12:01 AM on that day checking to see if institutions had information on their website, as they were required to. These disclosures are required to be simple and meaningful. They're intended to provide information directly from the programs home page for the particular program and we have a requirement that they be in an open format, they can be retrieved, downloaded and exit and searched and we will be providing a model disclosure template in advance of next year's disclosure requirements.

Jeff Baker: So in addition to disclosures, on the October 29th regulations and effective July 1st, we had regulations about adding new programs. The basic rule there is if a school is adding a new gainful employment program that begins on or after July 1st, 2011, the school needs to notify us 90 days before they're going to begin that program. During that 90-day period – in that notification, there's a significant amount of information that the school has to provide about justifying why they believe there's a need in their community for this gainful employment program and then we will review that information. If we need additional information, we'll ask for it. If the school does not hear from us up to 30 days before the programs going to start, then you don't need to wait for our approval. You can go ahead and start the program and it will be an approved program. Now, in reality, though, we gave that regulatory provision, but our team is committed to providing answers much before the 30 days approaches and even when everything's okay, to letting you know that everything is okay. If you don't provide us the notice within 90 days, you cannot start the program or at least you cannot award federal student aid until you get our approval and there are some other conditions where you have to wait for our approval, including being on provisional certification. Now, we mentioned a couple of times this MPRM that was published in September and then we're gonna do a final ruling in January. The important thing – why I'm repeating it now is when we publish that final rule in the winter, which will probably modify the rules about adding new gainful employment programs – there will be an effective date for that. And it will be later. So please do not think, "Oh, these guys just published the final ruling in January. I'm gonna start a new program in April. I don't have to do the 90 day notice anymore". No, you do, because the new rule won't go into effect until the date we publish it and if you make that mistake you could end up having to repay all of those Title 4 funds, so be very careful about that. Now in reporting – the reporting experience was supposed to be completed. We got a little creative with our language and by November 15th – and we're relatively satisfied with the reporting – that we got our team built. Lots of options for the gainful employment reporting – batch files, two kinds of batch files, this template – uploading of the template – and online. We still are receiving reports as recently as yesterday. 45 more schools reported. We did send letters out to the presidents and financial aid administrators of schools where we believed they had a gainful employment program but we hadn't gotten any reporting, and in fact, that resulted in a spike in the reporting so there's some initiative there. There's a couple of *Dear Colleague* letters that explain it. You're reporting by student, by award year and by program. By student, by award year, by program and a GE program is the OPEID, the classification instructional program, the CIP code, and the credential level – and we explain credential level in the user guide – that's the GE program. You have to report on – you should have reported – on every student who was enrolled in a GE program during one of the five award years that we requested information for. Now starting next year, it'll only be one year at a time. This was an arrangement to go back in time to get some additional information. You're gonna be reporting student identifying information, program identifying information, enrollment – when did the student begin enrollment? When did the end enrollment? Did they graduate? Did they withdraw? Are they still enrolled? And amounts from private educational loans and institutional financing and optionally tuition fees and you'll see how that plays in when we look at the metrics.

Dan Matella: So back in the mid-1980s or so we got about 4,500 comments on a proposed rule around credit hour. We thought that was a lot and it was and it was our high water mark until this round of gainful employment rules where we got 90,000 comments and what does 90,000 comments look like? Well, that's about half the length of the ally that runs alongside our building. But we did look at all of them and as we are required to do, and produced the rule that we have.

Dave Bergeron: So I'm gonna go through this really fast. Jeff and John's session immediately after this one, in this room, will go into this in more detail, but let me talk very briefly about the gainful employment metrics. Those were included in the June 14th regulation. We define gainful employment to involve programs where the program has a substantial number of students repaying their loans, which is the repayment rate and have a reasonable debt burden, the debt to earnings ratio. Ed is going to calculate the repayment rate, which will be the percentage of our Title 4 loan amounts that our gainful employments former programs are repaying and we will also calculate, with help from Social Security Administration, a debt to earnings ratio, which will be the median education loan repayment amount as a proportion of the borrower's average earnings. The final regulation establishes thresholds and the institution has to fail all of these thresholds to be subject to any sanctions on these rules. So then, an institution has to have at least a repayment rate of their Title 4 loans of 35 percent and must have a debt to earnings ratio of 12 percent of total earnings or 30 percent of discretionary earnings. Upon the first time a failing program is identified, an institution must disclose to their students and prospective students the amount by which the program failed to meet one of the repayment or debt to earnings ratios. And identify the plans that they have for improving those programs and it also requires a student to wait three days before they're allowed to enroll in the program. Upon failing twice, for two years out of three, the institution must tell the students that their debts may be unaffordable, that their program may lose eligibility and what their options are for transferring. If a program fails for three out of four years, the program loses eligibility for the federal student aid programs. And this is different – significantly different – than what happens with regards to, for example, the cohort default rate, where the entire institution loses eligibility. In the case of the gainful employment requirements, it is specific to the program.

Dan Matella: And here's a slide to show what at least our initial estimates of the impact of this proposal would be. Again, you see the distribution of GE programs by institutional sector. Again, there will be some programs that fail, but there'll be very few programs over in that right hand, right most column, that fail persistently and therefore will lose eligibility. We'll – obviously, as we get information in, schools report to us information on their GE programs, we'll refine our estimates and move on from there. The program information is available, of course, on IFAP. There is a GE information page there and again, we have set up a couple of mailboxes that are, in fact, monitored and for your questions and that we can use that availability for – to get information, in fact, specific information back to you.

Jeff Baker: I think we – I know we covered an awful lot of information. We appreciate you spending this time with us. Please look at all the other sessions. Enjoy yourself. Learn a lot. And thank you very much for attending.