Reduced Lender Profits Will Have Adverse Implications

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Reauthorization, to date, has been a roller coaster of good and bad news for proprietary schools. The financial items of HEA were finalized in 2006, but the remaining items in the Reauthorization of the Higher Education Act have been effectively postponed through legislation extending the authorization and all of its programs through June 30, 2007. While the Senate is staying close to legislation introduced during the 109th Congress, the 110th U.S. House of Representatives under Democratic control is headed in an entirely different direction than that of the Republicans in power last year. Up for debate are key issues including all of the legislative priorities for 90-10, transfer of credit, single definition, and access to student loan information.

The good news is that both the U.S. House and Senate will continue to support the reinstatement of disbursement benefits for those schools with three most recent consecutive cohort default rates under 10%. These benefits include elimination of the thirty-day delayed certification for first-time borrowers and the elimination of multiple disbursements.

The bad news is that many of the federal budget cuts to lenders and guarantors may have a negative, trickle-down effect. It is not unrealistic to anticipate that, as lenders' profits are squeezed, they will find ways to cut their costs internally to remain profitable. Traditional business models suggest that, in order to achieve internal savings, the lenders are likely to eliminate, scale back or outsource certain non-essential borrower services, normally resulting in lower levels of quality and level of service. The unintended consequences will be rising default rates, lender access problems for at-risk students and the institutions who educate them, and the need to resurrect the "Lender of Last Resort" program in certain states. *Let's not forget that Cohort Default Rates originated during Budget Reconciliation.*

To offset the adverse affects of budget cuts to the lending community, the following enhancements to your school's default prevention programs are highly recommended:

- Make "paying student loans" a theme at your school, not an afterthought.
- Increase student involvement in the student loan process.
- Increase borrower education processes.
- Simplify the messages presented by Financial Aid advisors and during your borrower education processes.
- Have borrowers complete In-school Deferments every time their enrollment status changes.
- Increase borrower education during the grace period.
- Increase interaction with delinquent borrowers through early intervention.

Champion College Solutions offers many avenues that could help achieve these objectives including an on-line course available through MaxKnowledge, providing default prevention posters for institutions, and a default prevention poster contest for $1,000 grants. We invite you to visit our website at www.ChampionCollegeSolutions.com for more information.

Schools are encouraged to communicate with new majority leaders for education committee and subcommittee chairmen and members to educate those in power to the importance of the private career schools and the positive impact that they have on our students, our employers, and our economy.