

Authority to Prescribe Rules

The Minnesota Higher Education Coordinating Board is authorized by statute to adopt policies and prescribe rules and regulations for student loan programs (Minnesota Statutes 1984, 136A.16, Subd. 2).

The SELF program was authorized by the 1983 Minnesota legislature and began operation in June 1985. For a complete set of SELF program rules, please see Minnesota Rules 4850.0011 to 4850.0018.

The Board is proposing to change Minnesota Rule 4850.0017. This document provides an explanation for the proposed rule change.

Background

Current Student Educational Loan Fund (SELF) rules specify that the Board or its agent shall provide borrowers with coupon books during the borrower's repayment period (i.e., Payout phase).

Coupon books contain 12 months worth of coupons and must be printed in advance. Because the interest rate charged to the student fluctuates weekly, it is impossible to know in advance the prevailing rate for each monthly payment. In an effort to stabilize both the monthly payment for the borrower and to protect against a fluctuating interest rate, it was decided (in rules) to take the prevailing rate the month before the borrower entered Payout phase, add three percentage points, and print the coupon book with an arbitrarily inflated interest rate (i.e., the "assumed rate".) During the year both the actual interest rate and the assumed rate are tracked, and the account is reconciled at the end of the year with credit given the borrower for any interest paid that exceeds the actual interest accrued.

Proposed Change

The proposed rule change would allow the agent of the Board, HEMAR, to print a monthly bill that more accurately reflects the amount owed. It would eliminate the confusion resulting from borrowers paying an artificially high interest rate and reconciling accounts. Maintenance of student loan accounts would be made easier. Monthly billings are useful in maintaining contact with the borrower. In addition, the borrower has been accustomed to receiving monthly or quarterly bills for interest only during the In-School and Transition (i.e., a period of one year following graduation or termination of enrollment) phases of the program, and it would be logical to continue using the same billing method during the Payout phase.