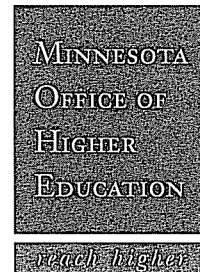


1450 Energy Park Drive, Suite 350
St. Paul, MN 55108-5227

Tel: 651.642.0567
800.657.3866
Fax: 651.642.0675

info.ohe@state.mn.us
www.ohe.state.mn.us



October 11, 2010

Legislative Reference Library
645 State Office Building
100 Constitution Avenue
St. Paul, Minnesota 55155

Re: In The Matter of the Proposed Amendment to Rules of the Minnesota Office of Higher
Governing Supplemental Student Loan SELF Program, Minnesota Rules, 4850.0010 to
4850.0018; Governor's Tracking #AR 532

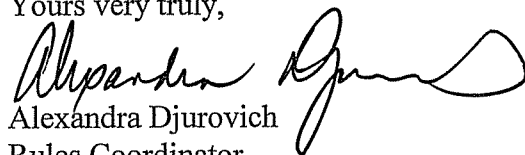
Dear Librarian:

The Minnesota Office of Higher Education intends to adopt rules governing the SELF student loan program. We plan to publish a Dual Notice of Intent to Adopt Rules without a Public Hearing in the October 18, 2010 State Register.

The Office of Higher Education has prepared a Statement of Need and Reasonableness. As required by *Minnesota Statutes*, sections 14.131 and 14.23, the Office is sending the Library an electronic copy of the Statement of Need and Reasonableness at the same time we are mailing our Notice of Intent to Adopt Rules.

If you have questions, please contact me at 651 259-3962.

Yours very truly,


Alexandra Djurovich
Rules Coordinator

Enclosure: Statement of Need and Reasonableness

Minnesota Office of Higher Education

STATEMENT OF NEED AND REASONABLENESS

Proposed Amendment to Rules Governing Supplemental Student Loan SELF Program, *Minnesota Rules, 4850.0010 to 4850.0018*

INTRODUCTION

The Minnesota Office of Higher Education proposes amendments to rules governing its supplemental student loan SELF Program.

About the SELF Program. The Minnesota Student Educational Loan Fund (SELF) Program helps students who need assistance in paying for education beyond high school. The SELF Program is a long-term, low-interest educational loan available from the Office of Higher Education. The program is distinctive to Minnesota, and the Office of Higher Education is the only lender in the program.

The SELF program does not receive state appropriations. Funding for SELF Loans is obtained through the issuance of revenue bonds. The revenue bonds are repaid from interest earnings.

Before applying for a SELF Loan, students are required to seek other sources of federal and aid for which they may be eligible.

Undergraduate students currently may borrow up to \$7,500 per year and graduate students may borrow up to \$9,000 per year. SELF V Loans, available in November 2010, will increase loan limits to \$10,000 per year for students enrolled in a bachelor's degree program, postbaccalaureate or graduate program. The minimum loan size is \$500.

Summary of rules amendments. The Office of Higher Education is considering rule amendments that would:

- Add SELF V and SELF VI loan language. SELF VI will be the next phase of loan options available to future borrowers. Different SELF loan phases may be created to secure revenue bonds to fund the SELF program and reflect current market conditions to maximize the best loan options for borrowers.
- Identify how interest would be calculated for SELF V and SELF VI phases of the program.
- Allow for a maximum interest rate to be included in the promissory note.
- Eliminate language that restricts differences in school application procedures in the school agreements and student application procedures section. Since procedures for the loan application vary by eligible school, language should accommodate these differences.
- Revise procedures to reflect the online application process and new federal application

disclosure requirements.

- Modify the existing rule permitting students to borrow twice at the same academic grade level as long as 7 months have elapsed from the start of the previous loan period. Currently students must wait 11 months before they can take out a second loan at the same grade level.
- Permit schools to disburse funds up to 45 days after the end of the loan period. The current 30 day disbursement is being increased due to delays caused by the new federal regulations.
- Eliminate statement allowing combined SELF payments for spouses. The program rules and statutes are designed on an individual basis. The existing provision for combining spousal payments is not being utilized.
- Other changes clarify and simplify the loan disbursement and repayment procedures.

The Request for Comments period ended May 17, 2010 and no comments were received. Proposed changes were reviewed with student members of the Higher Education Student Advisory Council, which provides the office with student perspectives on statewide higher education issues and policies including financial aid. Changes were also reviewed with financial aid administrators who participate in the Financial Aid Advisory Group. Suggested changes were incorporated into the draft rules.

ALTERNATIVE FORMAT

Upon request, this Statement of Need and Reasonableness can be made available in an alternative format, such as large print, Braille, or cassette tape. To make a request, contact Mary Lou Dresbach at 651-642-0567. TTY users may call 800-627-3529.

STATUTORY AUTHORITY

The Office's statutory authority to adopt the rules is set forth in *Minnesota Statutes* section 136A.16, which states:

The office shall adopt policies and prescribe appropriate rules to carry out the purposes of sections 136A.15 to 136A.1702. The policies and rules except as they relate to loans under section 136A.1701 must be compatible with the provisions of the National Vocational Student Loan Insurance Act of 1965 and the provisions of title IV of the Higher Education Act of 1965, and any amendments thereof.

Under this statute, the Office has the necessary statutory authority to adopt the proposed rules.

REGULATORY ANALYSIS

- 1. A description of the classes of persons who probably will be affected by the proposed rule, including classes that will bear the costs of the proposed rule and classes that will benefit from the proposed rule.**

The classes of persons who will be affected by the proposed rule will be:

- Students who borrow loans and their cosigners.
- Financial aid directors at postsecondary institutions.

Persons who will benefit from the proposed rule will be:

- Students who qualify to borrow a second loan at the same grade level and need a SELF loan sooner than the current 11 month waiting period.
- Students enrolling in a summer school program or enrolling in a year-round program.
- Students who apply near the end of the loan period.

There are no people who will bear the costs of the proposed rules directly. There may include people who oppose students being able to borrow additional funds at an earlier date.

- 2. Probable costs to the agency and to any other agency of the implementation and enforcement of the proposed rule and any anticipated effect on state revenues.**

There is no anticipated cost to the agency or to any other agency for the implementation and enforcement of the proposed rule. The proposed amendments will allow a small number of students to borrow a second loan at an earlier point in time.

- 3. Determination of whether there are less costly methods or less intrusive methods for achieving the purpose of the proposed rule**

The proposed rule amendments are not costly or intrusive. These proposed rules were determined to help the affected parties. They will allow borrowers to secure additional loans as needed and help school financial aid administrator process loans more efficiently.

See rule analysis below.

- 4. A description of any alternative methods for achieving the purpose of the proposed rule that were seriously considered by the agency and the reasons why they were rejected in favor of the proposed rule**

There are no alternatives to achieve the purpose of the proposed rule amendments. These are the only administrative procedures in effect to appropriately and effectively administer the SELF student loan program.

5. The probable costs of complying with the proposed rule, including the portion of the total costs that will be borne by identifiable categories of affected parties, such as separate classes of governmental units, businesses, or individuals.

As required by *Minnesota Statutes*, section 14.131 (5), the Office of Higher Education has determined the proposed rules has no direct affect on governmental units or businesses. These rules govern loans to individuals to help finance their postsecondary education.

There are no direct costs for individual borrowers or co-signers to comply with the proposed rule amendments.

Funding for the SELF program is from interest and principal repayments from the borrowers and the sale of revenue bonds. There are no state appropriations for the SELF program. All program costs must be covered by the borrowers.

6. The probable costs or consequences of not adopting the proposed rule, including those costs or consequences borne by identifiable categories of affected parties, such as separate classes of government units, businesses, or individuals.

Many of the proposed changes will help borrowers repay their loans or make it possible to obtain loans in a timely fashion. Students currently must wait 11 months to take out a second loan and they experience a shortfall in the necessary financial aid. Not allowing the proposed rule amendment allowing students to borrow a second loan within seven months will continue to affect students who need additional aid more than once at the same grade level.

Some of the changes eliminate unnecessary language explaining how a borrower and the school must process a loan. Financial aid directors need additional time to process a loan than the current rules specify due to additional federal procedures. By not adopting the proposed rules changes some students will not receive loans when they are needed. Consequences of not eliminating unnecessary loan processing procedures will continue to make the loan disbursement process inefficient and cumbersome to postsecondary institutions; further delaying loans to students.

See rule analysis below.

7. An assessment of any differences between the proposed rule and existing federal regulations and a specific analysis of the need for and reasonableness of each difference.

There are no differences between the proposed rule amendments and existing federal regulations. However, new federal regulations added additional steps students must take to obtain a student loan and also added a required mandatory cancellation period. This has increased the time schools need to disperse the loans to students. One of the proposed rule

amendments will give schools an additional 15 days to process the loan. All other proposed rule amendments comply with existing federal requirements.

PERFORMANCE-BASED RULES

Minnesota Statutes, sections 14.002 and 14.131, require that the Statement of Need and Reasonableness describe how the agency, in developing the rules, considered and implemented performance-based standards that emphasize superior achievement in meeting the agency's regulatory objectives and maximum flexibility for the regulated party and the agency in meeting those goals.

These proposed rule amendments provide more flexibility for borrowers to take out a second loan at the same academic grade level. Instead of waiting 11 months borrowers only need to wait seven months to apply for a second loan. This proposed amendment accommodates students attending multiple academic terms such as summer school or year around school.

In addition, the proposed rule amendments incorporate the changes needed as a result of loan applications being processed electronically online versus paper applications and new federal regulations.

ADDITIONAL NOTICE

Our Notice Plan includes giving notice required by statute. We will mail the rules and Notice of Intent to Adopt to everyone who has registered to be on the agency's rulemaking mailing list under *Minnesota Statutes*, section 14.14, subdivision 1a. We will also give notice to the Legislature per *Minnesota Statutes*, section 14.116. Besides posting the proposed amendments in the State Register the following groups were also notified:

- Individuals and organizations on the Office's registered rulemaking list;
- Student Advisory Group;
- Financial Aid Advisory Group;
- Chairs of legislative committees with oversight of the Office;
- Financial Aid Directors at 300 higher education institutions eligible to participate in the SELF program; and
- Posting on the Office's front page of the agency Web site.

A Request for Comments was published in the *State Register* on March 1, 2010.

CONSULTATION WITH MMB ON LOCAL GOVERNMENT IMPACT

As required by *Minnesota Statutes*, section 14.131, the Office of Higher Education has consulted with Minnesota Management and Budget. We did this by sending the Executive Budget Officer copies of the documents sent to the Governor's Office for review and approval by the

Governor's Office prior to the Office of Higher Education publishing the Dual Notice of Intent to Adopt Rules. Copies were sent on July 16, 2010. The documents included: the Governor's Office Proposed Rule and SONAR Form; final draft rules; and Statement of Need and Reasonableness dated July 13, 2010.

DETERMINATION ABOUT RULES REQUIRING LOCAL IMPLEMENTATION

As required by *Minnesota Statutes*, section 14.128, subdivision 1, the agency has considered whether these proposed rules will require a local government to adopt or amend any ordinance or other regulation in order to comply with these rules. The agency has determined that they do not because the SELF Loan program does not affect any local government entities.

COST OF COMPLYING FOR SMALL BUSINESS OR CITY

As required by *Minnesota Statutes*, section 14.127, the Office of Higher Education has considered whether the cost of complying with the proposed rules in the first year after the rules take effect will exceed \$25,000 for any small business or small city. (A small business is defined as a business (either for profit or nonprofit) with less than 50 full-time employees and a small city is defined as a city with less than ten full-time employees.) The Office of Higher Education has determined that the cost of complying with the proposed rules will not impact a small business or small city. The proposed rule affects individuals who borrow a loan to finance their postsecondary education and the borrower's designated individual co-signer, not any small businesses or city. Consequently, there is no cost to small business or small cities.

WITNESSES FOR HEARING

If a hearing is held the agency does not anticipate there will be any non-agency witnesses to testify on behalf of the Office of Higher Education.

RULE-BY-RULE ANALYSIS TO PROPOSED SELF RULES

4850.0011 DEFINITIONS.

Subpart 20. Grade level.

- The reference to academic year in the grade level definition was deleted. Many students attend schools that do not utilize a traditional nine month academic year or also attend summer school. Grade level is determined by academic program requirements and not by calendar requirements.

Subpart 28c. SELF IV loans.

- The language regarding utilization of a fixed rate when the rate is favorable to borrowers was deleted. Determining whether a rate is favorable to borrowers is too subjective. The different financing options available to students are dependent upon credit worthiness, co-signers credit worthiness or the school they are attending. Other alternative loan programs frequently take these factors into account in determining the interest rate offered to loan applicants. The SELF program interest rates may be lower for some borrowers but not necessarily all borrowers.

Subpart 28d. SELF V loans.

- This section describes how interest will be calculated for the new SELF V program. The SELF V loan program increased loan limits.

Subpart 28e. SELF VI loans.

- The SELF VI loan program defines how interest would be calculated if a SELF VI loan program is adopted. This will be the next phase of loan options available to future borrowers. Different SELF loan phases may be created to secure revenue bonds to fund the SELF program and reflect current market conditions to maximize the best loan options for borrowers.

4850.0012 SCHOOL AGREEMENTS AND STUDENT APPLICATIONS.

Subpart 3. Application and promissory note.

- The loan application process description was shortened. Since the advent of an online electronic application it is not necessary to lay out all the application steps since they now vary from school to school. The student just needs to follow the loan application process used at the school they attend.

4850.0014 AMOUNT AND TERMS

Subpart 1. Loan amounts.

- The proposed amendments will allow students to apply for multiple loans at the same grade level instead of limiting students to only two loans in one year. This section was revised to reflect concerns raised by schools that the rule was too restrictive and should be updated to reflect current trends in student attendance. There are an increasing number of students who attend summer school or schools with non-traditional academic years. Shortening the time restriction for borrowing from 11 months to seven months will permit students to

borrow a second loan earlier rather than waiting almost a year if they have not advanced a grade level. Cumulative borrowing maximums are still in place to limit what a student can borrow overall.

Subpart 3. Interest rate.

- This new section describes the interest rate language for the new SELF V and VI loans. The language is the same as that used for the SELF IV program.

4850.0015 LOAN DISBURSEMENTS.

Subpart 3. Disbursement when loan proceeds arrive during loan period.

- A sentence describing how schools should handle loan proceeds was deleted as it was redundant.

Subpart 4. Disbursement when loan proceeds arrive after loan period.

- The time period was increased from 30 to 45 days when schools are required to disburse funds after the end of the loan period. New federal regulations added additional steps students must take to obtain a loan and also added a required mandatory cancellation period. This has increased the time it takes schools to disburse money to students by two to three weeks. This proposed rule amendment will enable students to apply for a loan near the end of the loan period and still have it processed in a timely manner.
- A sentence describing how schools should handle loan proceeds was deleted as it was redundant.

4850.0016 NONENROLLMENT, TRANSFER, AND WITHDRAWAL.

Subpart 4. Reduction of enrollment to less than half-time status.

- The sentence describing the repayment process for students who enroll below half-time was deleted. The enrollment transition period is more clearly defined in *Minnesota Rules* 4850.0011 subpart 29.

4850.0017 REPAYMENT PROCEDURES.

- A proposed amendment will allow borrowers to be billed more than once during a calendar quarter. Some borrowers prefer their loan payments to be billed in shorter time periods, especially if they have multiple SELF loans.

- Language regarding how monthly loan principal amounts are calculated was deleted as this does not reflect the current practice. The current practice recalculates quarterly payment amounts to accurately reflect the amount needed to repay the loan in the required time period based on the current loan balance and current interest rate.
- A proposed amendment deletes provisions covering combined payments of a borrower's and their spouse's loan. The loan repayment servicing system is only set up to bill borrowers individually and cannot accommodate combined billing for married borrowers.

4850.0024 DEFAULTED LOAN REHABILITATION.


- The exact date the defaulted loan rehabilitation option is available to borrowers was added instead of referring to where this date is located in the rules. Specifying the exact date makes it easier to understand instead of having to look up the date in another section of the rules.

CONCLUSION

Based on the foregoing, the proposed rules are both needed and reasonable.

October 6, 2010

Date



David Metzen
Director