



Report on the Future of the
Vermont Student Assistance Corporation



Submitted to the Vermont Legislature
January 15, 2011

**VSAC's mission is to ensure that all Vermonters
have the necessary financial and information resources
to pursue their education goals beyond high school.**

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Introduction

Over the course of 45 years, the Vermont Student Assistance Corporation (VSAC) developed a one-stop shop for postsecondary information and financing, and was viewed nationally as an innovator committed to high levels of customer and school service. As part of its work, VSAC offered federal student and parent loans through the Federal Family Education Loan (FFEL) program. The FFEL program provided revenues that, over time, enabled VSAC to avoid using any of its state appropriation to administer state grants and a variety of scholarship programs, match federal outreach grants, and fund myriad college access and career and education counseling services.

On March 23, 2010, President Obama signed the Health Care and Education Reconciliation Act (HCERA). This legislation included a provision to eliminate the FFEL program, leaving the federal “direct loan” program as the only source of federal education loans for students and parents. VSAC issued its final FFEL loans as the last fiscal year drew to a close on June 30, 2010.

Debate over this provision was dominated by common misconceptions about federal education loans — namely, that FFEL participants, including private banks and public agencies like VSAC, had control over the interest rates they charged on FFEL loans and, further, that they reaped excessive returns on those loans.

In fact, interest rates on all federal education loans, whether through the old FFEL program or direct lending, are established in law by Congress. In addition, two forms of federal oversight limited the share of interest collected on federal loans that VSAC could keep:

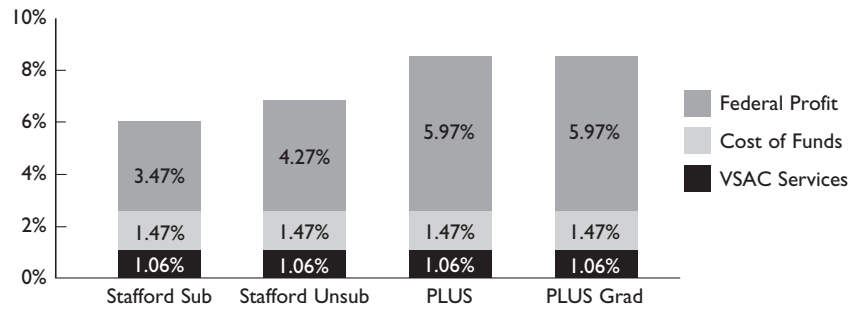
- Under federal tax law, nonprofit state-based agencies like VSAC that used tax-exempt bonds to finance their FFEL loans could retain no more than 200 basis points (2 percent) of the interest rate just to cover federal loan servicing.
- A U.S. Department of Education formula further restricted the amount agencies like VSAC could retain to cover both the cost of financing FFEL loans (paying interest to bondholders and fees to the government) **and** the expense of servicing federal loans. In the final year of the FFEL program, that amount was capped at 2.53 percent.

In FY10, VSAC’s bond costs and federal fees totaled 1.47 percent. Thus, on new loans, VSAC could retain only 1.06 percent for program administration and borrower benefits (an array of loan rebates, discounts, and fee waivers VSAC provided its borrowers since FY95). The federal government required VSAC to pay the remainder of the

Over the course of 45 years, VSAC developed a one-stop shop for postsecondary information and financing, and was viewed nationally as an innovator committed to high levels of customer and school service. As a participant in the Federal Family Education Loan (FFEL) program, VSAC was able to use loan proceeds to fund career and education counseling services, match federal outreach grants, and subsidize administration of Vermont grants and scholarships.

In FY11, responsibility for financing, guaranteeing, and originating federal education loans shifted from local agencies like VSAC to a centralized “direct loan” system overseen by the U.S. Department of Education. The elimination of the FFEL program reduced funding for VSAC’s many non-loan services without lowering the cost of higher education or making student and parent loans more affordable.

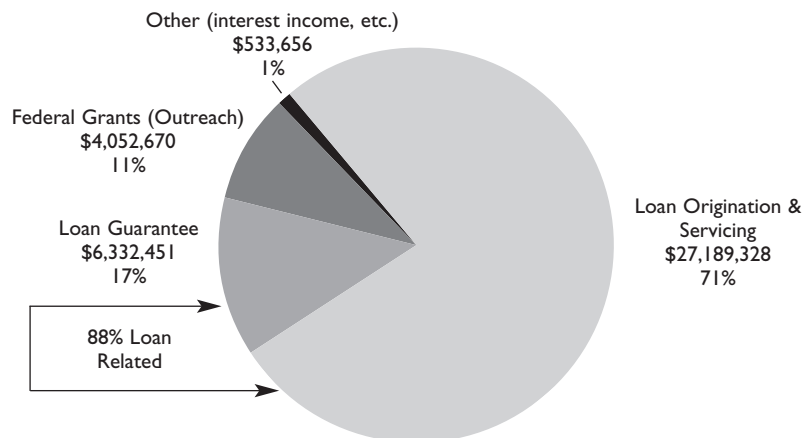
Why Do Student Loans Cost So Much?



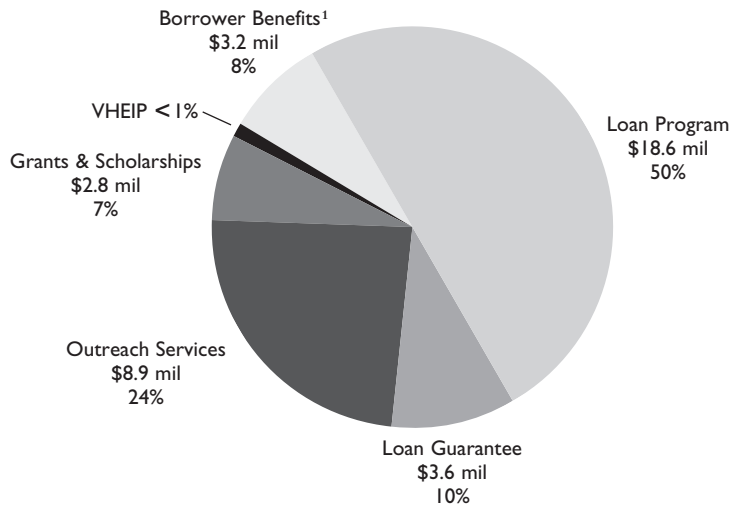
interest collected on its FFEL loans to the U.S. Department of Education. The chart above, supported by nonpartisan Congressional Budget Office analyses, illustrates the substantial federal profit for each loan type: subsidized and unsubsidized Stafford loans for students, PLUS loans for parents, and PLUS loans for graduate students. Ironically, an outcome of HCERA is to further increase this federal revenue from low- and middle-income borrowers, despite claims that the bill was intended to make loans more affordable for hard-pressed American families.

In FY10, the amount VSAC was permitted to retain from education loans accounted for 88 percent of VSAC’s operating budget and allowed VSAC to administer state and federal programs — including college savings, college and career planning, college access, Vermont grant programs, and scholarship offerings — at no cost to the state of Vermont. In fact, 31 percent of VSAC’s loan revenue was used to underwrite state programs and to match federal grants. In addition, VSAC was able to use its access to tax-exempt financing to reduce the cost of student and parent loans through the borrower benefits referenced above; the cumulative value of these benefits was \$148 million at the close of FY10.

Sources of VSAC Operating Revenue FY10



VSAC Operating Expense by Program FY10



Vermont residents and VSAC customers overwhelmingly opposed the HCERA provision due to the loss of vital services that would result when FFEL revenues were eliminated. The Vermont congressional delegation led efforts to modify the provision and mitigate the impact on VSAC and Vermont students and families. Thousands of Vermonters joined forces to voice their deep concerns about the impact the law would have on their ability to obtain the education and training they need to pursue their career and life goals (see Appendix A).

HCERA’s original goal was to eliminate large for-profit banks and education loan servicers from the FFEL program and channel savings toward increased funding for federal Pell grants and reduced rates on federal student and parent loans. Unfortunately, other political priorities intruded as the bill worked its way through Congress. Funding for the Pell grant program dropped well below the original plan, and the plan to reduce interest rates was abandoned entirely. Surprising many policy makers and analysts, the Department of Education announced that it would issue contracts for federal loan servicing only to entities that were already handling at least two million borrower accounts. This limited direct loan servicing eligibility to the five largest national servicers, restored the dominant role of the large for-profit lenders, and eliminated any role for small nonprofit and state-based providers.

Senator Patrick Leahy and Congressman Peter Welch, with leadership from Senator Bernie Sanders, fought to amend the legislation to require the Department of Education to contract with qualified state-based and nonprofit agencies to provide some loan servicing under the direct loan program. In addition, the delegation was able to increase the size of VSAC’s College Access Challenge Grant from

Vermonters raised concerns about the new direct loan system, because it disregarded the value-added services state-based nonprofits like VSAC provide while preserving a loan servicing role for large, national contractors. Vermont’s congressional delegation responded by amending the legislation to ensure that VSAC and other nonprofits could compete for direct loan servicing contracts and to increase funding for VSAC’s college access programs.

¹ This amount represents the FY10 borrower benefits that were paid from VSAC’s operating budget. Total VSAC borrower benefits for the year were \$10 million.

During the past three years, VSAC has already cut its budget and staff positions by about 20 percent. Even under the best direct loan servicing scenario, VSAC will have to implement additional cuts and change the way it delivers and pays for its many services. Unfortunately, these reductions come at a time when VSAC's services are more important than ever to achieving state goals for postsecondary access and workforce development.

\$333,000 to \$1.5 million for each of the next five years. These are important, positive steps forward. However, even under the best direct loan servicing scenario, VSAC will no longer be allowed to offer the “front-end” loan counseling services it had previously provided and will be forced to trim other programs on which Vermonters have come to depend. *During the past three years, VSAC has reduced its budget by \$7.4 million (18 percent) and its staff positions by 84 (21 percent). Staff reductions have thus far been achieved through attrition and reassignment.*

The remainder of this report covers VSAC's history and business model and the immediate and long-term impacts of HCERA on services to Vermont students, families, and schools. This report concludes that, in significantly reducing VSAC loan program revenues, HCERA will have an adverse effect on VSAC's non-loan programs, including the Vermont grant program; Vermont scholarships; federal outreach programs like Talent Search, Educational Opportunity Center, and GEAR UP; and many other college access services.

Background and History of VSAC

The Vermont Student Assistance Corporation was established by the Vermont Legislature in 1965 with the leadership and support of Governor Philip H. Hoff. Its mission was to ensure that all Vermonters have access to the necessary financial and information resources to pursue their education goals beyond high school. VSAC was established to administer the state grant program and to guarantee student loans under a Vermont loan program that was the precursor to the FFEL program. VSAC guaranteed its first loan in 1966. One year later, it began administering the Vermont Honor Scholarship, a state-supported program to assist a high-achieving graduate of each Vermont high school.

In 1969, recognizing the importance of providing career, education, and financial aid counseling to low- and middle-income students, VSAC competed for and was awarded one of the nation's first federal Talent Search grants. This grant responded to a tremendous unmet need in Vermont schools and launched VSAC's comprehensive outreach services. From the 1960s until 1996, the state provided matching funds for this grant from VSAC's annual appropriation.

In 1978, at the request of Gov. Richard Snelling, VSAC began administering the Vermont High School Senior Survey. This survey is given to graduating seniors at all public high schools in Vermont as well as at private schools serving Vermont students. Originally sup-

ported with funds from the Vermont Department of Education, the survey is now underwritten by VSAC. The survey tracks factors influencing students' experiences in high school and their aspirations for careers, job training, and postsecondary education. VSAC follows up one year later by asking these recent graduates what they actually did. The two surveys have been replicated by the state of New Hampshire and provide unique and powerful tools for developing programs to increase college attendance rates.

In 1982, VSAC expanded its loan offerings and began participating in the federal Parent Loan for Undergraduate Students (PLUS) program and the federal Supplemental Loans for Students (SLS) program for independent students.

The following year, the Vermont Legislature established a grant program for part-time students — one of only six programs of its kind in the nation — and asked VSAC to administer it. Also in 1983, VSAC issued its first tax-exempt bonds to allow it to help Vermont banks and credit unions expand access to education loans for Vermont students and families. These bonds were issued as general revenue bonds with the sole source of repayment being the education loans and the loan revenues pledged as collateral. These bonds, and all subsequent VSAC education loan bonds, are not VSAC general obligations and are neither general nor moral obligations of the state of Vermont.

In 1984, VSAC achieved a new and important milestone by raising funds to award \$250,000 in private and public scholarships to Vermont students and families.

In 1986, VSAC opened its college and career resource center and made thousands of books and journals available to students, families, and educators. The resource center, which expanded in 2001 to become a fully realized walk-in facility, is recognized as a national model and has been replicated throughout the country and Canada (in FY10, there were nearly 29,000 visits to the VSAC Resource Center).

1987 marked significant growth in demand for career, education, and financial aid programs and services. VSAC's outreach programs responded by expanding to serve students in middle schools as well as high schools. VSAC began originating education loans on behalf of Vermont banks, offered its first consolidation loans, began offering rehabilitation loans to borrowers whose loans had defaulted (so they could regain aid eligibility and complete school), and, at the request of Vermont colleges, began offering private loans. Private or alternative loans bridge the gap between federal loans, some of which have relatively low annual and cumulative limits, and the total cost of attending

VSAC was founded in 1965 to help Vermonters plan and pay for education or training beyond high school. Early on, VSAC guaranteed loans and administered state grants and the Vermont Honor Scholarship. In 1969, VSAC was awarded a federal grant that helped to launch its outreach services for low-income or first-generation college-bound students. In 1978, it added research services to track college aspiration and continuation. In the 1980s, VSAC expanded its outreach to adult learners; enhanced its grant, scholarship and loan services; and opened its career and education resource center.

The late 1980s and early 1990s saw increasing demand for VSAC services. VSAC received a federal grant to support outreach services for adults, and, through a new federal program, additional resources to counsel middle school and high school students. VSAC created one of the nation’s first borrower benefit programs in 1994; between then and 2010, when FFEL was discontinued, VSAC provided its borrowers with \$148 million in principal rebates, other discounts, and fee waivers on federal education loans.

college. VSAC also began offering electronic loan processing to Vermont colleges and universities. This marked a major step forward in efficiency.

In 1988, VSAC began offering specialized parent PLUS loans tailored to the unique needs of individual Vermont colleges and universities. In addition to meeting the needs of families, these loans offered the schools a competitive advantage when competing for out-of-state students. The following year, in order to support Vermont students attending medical school, VSAC began offering Health Education Assistance Loans (HEAL).

VSAC had assisted adult learners since 1981, but in 1991 won a federal Educational Opportunity Center (EOC) grant enabling it to expand its career and education services to this population. EOC assists students who have dropped out of high school; those who completed, but did not continue beyond, high school; and underemployed or dislocated workers seeking education and training or new careers. Also in 1991, many Vermont banks chose to exit the FFEL and HEAL programs due to the complexity of federal regulations and oversight. VSAC filled the gap by originating education loans for Vermont students and parents and for the families of out-of-state students attending Vermont schools.

In 1994, VSAC initiated one of the first borrower benefit programs in the nation. Recognizing that Vermont families were incurring some of the highest debt in the country as a result of the high cost of Vermont institutions, VSAC looked for ways to use efficiencies to offer principal rebates and other loan discounts. Originally known as “Vermont Value,” this program made VSAC education loans the least expensive in the nation. That same year, VSAC partnered with U.S. Senator Jim Jeffords of Vermont to design, compete for, and win one of the first grants made under the National Early Intervention Scholarship and Partnership (NEISP) program. This \$1.4 million grant allowed VSAC to expand its outreach services to low- and middle-income Vermont students.

1996 marked continued growth in VSAC’s services to low- and middle-income families. VSAC was named as one of six lead partners in Vermont’s school-to-work initiative and raised new funds for its private and public scholarship programs, enabling it to award more than \$1 million in scholarships.

The year also saw another important milestone in VSAC program delivery. In prior years, funds from VSAC’s annual state appropriation were used to provide grants to Vermont students, match federal grants, and pay part or all of the costs of administering VSAC services. In

FY97, VSAC completed a multi-year plan to gradually reduce the percentage of the state appropriation used to support program administration until 100 percent of the funds could be devoted to student grants or other gift aid (Vermont Honor Scholarship and summer employment matching funds).

In 1999, VSAC's national leadership in the provision of outreach services to Vermont families was rewarded with a five-year, \$8.4-million Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) grant from the federal government. This grant allowed VSAC to expand the number, scope, and reach of services previously provided through the NEISP program grant. VSAC also launched the Vermont Higher Education Investment Plan (VHEIP), Vermont's "529" college savings program. VSAC's fundraising for scholarships continued to bear fruit, and Vermont students were awarded more than \$2 million in public and private scholarships. This represented a doubling of VSAC scholarship funds over three years.

Participation in VHEIP exceeded expectations and, by 2000, more than \$1 million had been invested by Vermont families. In order to provide their students and parents with higher-quality service and lower-cost VSAC loans, the University of Vermont joined Castleton State College in ending their brief participation in the earlier incarnation of the federal direct loan program. By this time, VSAC had outgrown its space in the Champlain Mill in Winooski. Customer service staff were relocated to a temporary facility in Essex, while VSAC explored ways to bring its entire operations into a single building. Gov. Howard Dean, Sen. Leahy, and Winooski officials unveiled a plan to revitalize downtown Winooski and urged VSAC to become the financial anchor for this development by locating its new building at the center of the beleaguered city. The project encountered significant delays and setbacks, and the cost and inefficiency of occupying two buildings grew. VSAC explored alternatives to the Winooski project but, with strong encouragement from two administrations, remained committed to anchoring the Winooski downtown development project.

In 2001, all of the remaining Vermont state colleges left the federal direct loan program and rejoined the FFEL program administered by VSAC. The move provided students and families with lower-cost education loans and higher-quality service while avoiding problems plaguing the Department of Education's national loan servicer. Middlebury College became the only Vermont school to remain in the direct loan program, although it left the program in 2006. VSAC expanded electronic services to schools, students, and borrowers, and began administering the Green Mountain Loan Program for the

In FY97, VSAC completed a multi-year plan to phase out use of the state appropriation to cover administrative expenses, enabling the entire appropriation to go to students in the form of grants or other direct aid. As the millennium approached, VSAC received its first federal GEAR UP grant, augmenting support for outreach to middle school and high school students. VSAC also launched the state's 529 college savings program as a way to motivate families to save and to reduce their dependence on education loans.

The early part of the new century saw increases in VSAC's education loan portfolio, funding for public and private scholarships administered by VSAC, and career planning services for Vermont schools. VSAC launched its College Pathways program, providing a full day of free workshops for high school students and their parents on all aspects of college planning and financing. In 2005, VSAC completed construction of a new building in the heart of Winooski's downtown.

University of Vermont. VSAC expanded the offerings of its resource center and welcomed nearly 10,000 visitors.

In 2002, VSAC's loan portfolio topped \$1 billion and VSAC fundraising allowed it to award \$3 million in public and private scholarships. This represented a 300-percent increase over five years. VSAC also introduced its first College Pathways seminar for Vermont high school juniors and their parents. Visits to the VSAC resource center grew by 50 percent to nearly 15,000. To extend the range of these services to students and schools outside of Chittenden County, VSAC began providing free career and education counseling software to every middle school and high school in the state.

In 2003, requests increased substantially from middle schools and high schools wanting help developing and implementing career and education counseling programs for students not served directly by our Talent Search and GEAR UP programs. VSAC responded by formally establishing the Career Planning Initiative. VSAC's CPI team works with middle and high school leaders to plan career and education fairs, develop and integrate career development tools into the curriculum, train teachers and counselors, and provide direct services to students.

2004 marked the 10th Anniversary of VSAC's Vermont Value program to reduce the burden of education loan debt. Vermont students and their families had received more than \$89 million in education loan rebates. At the same time, Vermont families dramatically expanded their participation in the VHEIP program and total investments grew to \$39 million. The Vermont Legislature completed a full rewrite of VSAC's statutes. In addition, Gov. Jim Douglas, the City of Winooski, and VSAC held a press conference to announce a development agreement for the purchase of land and construction of the VSAC building. This agreement provided critical evidence of state and community support while the city and state searched for a developer to partner on the rest of the downtown development project. The year ended on a less positive note, however, with passage of the federal Taxpayer-Teacher Protection Act, which cut an estimated \$300 million from the programs of nonprofit state agencies like VSAC. The nonprofit agencies in Wyoming and Alaska were exempted from the cuts.

In 2005, VSAC expanded the highly successful College Pathways program to include both Saint Michael's College and Castleton State College. Despite construction in downtown Winooski, 16,541 people visited the VSAC Resource Center to receive assistance planning for careers and college, applying for financial aid, and managing their loans. In addition, VSAC's outreach programs were recognized with the award of a six-year, \$21-million federal GEAR UP grant. This

grant allowed VSAC to significantly expand its outreach services and partner with high schools on locally designed school reform initiatives to increase college attendance rates. Facing rising budget deficits, Congress once again cut the education loan programs by enacting the Higher Education Reconciliation Act (HERA). This legislation cut \$20 billion from the FFEL program administered by VSAC and began using federal savings to pay for non-higher-education programs. According to the nonpartisan Congressional Budget Office, after enactment of HERA, the federal government now made a profit on every unsubsidized student loan and every parent PLUS loan by charging interest rates well above their costs of funding.

The years leading up to 2006 marked a new focus on children in state custody. In 2004, the Vermont Legislature created the Emily Lester Scholarship for foster youth and asked VSAC to administer it. In 2006, VSAC stepped forward to assist the Department for Children and Families by administering the federal Chafee Education and Training Voucher Program. These programs provide funds to enable nearly 100 students who are, or have been, in foster care the opportunity to attend college. As part of a broader commitment to serving these youths, VSAC also joined with DCF to expand career and education counseling services to these students in middle school and high school. This effort also led to the creation of a model partnership with the College of St. Joseph in Rutland to provide a comprehensive education and support program for children in state custody seeking to attend college. This program provides year-round education, housing, work, and academic and emotional support to eligible students. Financial aid and career and education counseling are provided by VSAC.

In 2007, Vermont undertook an effort to increase the number and rate of Vermont high school graduates pursuing education and training after high school. The state provided VSAC with one-time funding to explore innovative ways to increase the aspirations of middle and high school students. These funds were used to develop and launch the award-winning *Start Where You Are* program. This program uses a combination of face-to-face and online techniques to encourage students to think about their future and the education or training they will need to achieve their goals. The original *SWYA* Web site, geared for teens and parents, was selected for three awards in 2008: Adobe Site of the Day, a Gold W³ Award from the International Academy of the Visual Arts, and an Education Standard of Excellence WebAward from the Web Marketing Association. VSAC also expanded the College Pathways program to a third site: Lyndon State College. Total participation at all three sites exceeded 1,400 students and parents. In addition, VSAC launched its High School Road Maps initiative to get step-by-step guidance in the hands of every Vermont high school

Midway through the decade, Vermont identified the need to improve services for youth in state custody. VSAC collaborated with government officials and higher education leaders to improve college access for youth in foster care and to increase college funding and support for these students. In 2007, VSAC launched its award-winning *Start Where You Are* program, employing face-to-face and online tactics to encourage more young Vermonters to consider education beyond high school.

Despite the credit crisis and cuts to the federal education loan programs, VSAC continued to make education loans available to Vermont families, first through a private financing deal and then through the federal ECASLA program. However, economic factors forced VSAC to cut its budget and staff positions in each of the three years from FY07 through FY09.

junior and senior and their families. *In response to federal funding cuts and the emergence of the credit crisis, VSAC cut its spending by \$1.9 million or 4.9 percent.*

2008 was marked by achievement, the broader impact of the credit crisis, and further cuts from Congress. Facing additional deficit pressures, Congress enacted the Higher Education Opportunity Act (HEOA). Despite acknowledging that the cuts of the prior two years were driving lenders out of the program, Congress cut the education loan program by an additional \$160 million. Combined with the expanding credit crisis, these cuts and the unexpected departure of for-profit lenders brought the nation close to a crisis in access to student loans. Several months later, Congress was forced to enact the emergency Ensuring Continued Access to Student Loans Act (ECASLA) to provide credit support to agencies unable to secure other financing for new education loans. VSAC, based on its strong fiscal and servicing track record, was one of the only state agencies in the country to successfully secure its own private financing for education loans in 2008. VSAC also applied for and received its first federal College Access Challenge Grant. This grant allowed VSAC to continue and expand the *Start Where You Are* program. *Responding to the federal cuts and the credit crisis, VSAC froze salaries, cut its FY09 budget by \$2.8 million and eliminated 43 positions. This represented a budget cut of 6.7 percent.*

The credit crisis continued to expand across the economy, and moved from housing bonds to municipal and education loan bonds. VSAC — along with many other education loan and housing agencies, municipalities, and states — utilized auction rate securities to raise inexpensive capital in the bond markets. These markets failed as banks withdrew their credit support, causing the interest rates paid to auction rate security investors to rise above historical norms. VSAC began exploring ways to refinance these bonds to reduce interest costs. In addition, VSAC purchased and retired bonds from sellers at a discount. These activities, combined with historically low interest rates, have restored VSAC's bond trusts to pre-credit-crisis levels of health. These bonds do, however, remain vulnerable if there are significant future increases in interest rates. The magnitude and impact of this risk declines each year as the portfolio is paid down (8–10 percent each year).

In 2009, VSAC also elected to participate in the second year of the federal government's education loan credit program under ECASLA. (VSAC's financial health permitted access to private capital, but at an excessive price that would make it impossible to cover financing costs). VSAC decided to participate in the ECASLA Put program. Under this program, VSAC drew on federal credit to originate federal education loans for the 2009–10 academic year and was legally

required to refinance these loans through a “put,” or sale to the federal government, that occurred in the summer of 2010.

Also in 2009, VSAC issued an RFP for continued management of VHEIP investments, received multiple bids, and ultimately renewed its contract with TIAA-CREF. This new contract reduced program fees, created new investment options, and, when combined with the state income tax credit, earned several VHEIP investment options four out of five stars from Morningstar, Inc. Investments in the plan continued to grow despite the recession, and total investments by Vermonters were nearly \$100 million. Following a concerted effort to reduce energy costs and become more energy-efficient, the VSAC building was awarded an EPA Energy Star Rating. *VSAC continued to make cuts, reducing its FY10 budget by 5.9 percent, or \$2.3 million, and continuing a salary freeze in order to avoid layoffs. Twenty-four positions were eliminated through attrition and reassignment.*

In 2010, VSAC received recognition for the online version of its innovative High School Road Maps program. Winner of a 2010 Platinum Hermes Award from the Association of Marketing and Communications Professionals, the road maps microsite provides Vermont high school students with step-by-step guidance on planning and paying for college. Also in 2010, VSAC launched its new grant application system. More than five years in development and testing, this system allows students to apply for their grants entirely online and provides colleges and universities with the ability to generate real-time reports about grant aid for their students. VSAC also launched *Start Where You Are Pro*, an enhancement to the earlier *Start Where You Are* site that provides resources to enable teachers and counselors to integrate career and education counseling into their work with students. Like its predecessor, *Start Where You Are Pro* won three awards: a Web Marketing Association WebAward for Outstanding Achievement in Web Development and two silver W³ awards from the International Academy of Visual Arts in the categories of Education and Structure & Navigation. In 2010, VSAC secured financing to allow it to offer up to \$23 million in fixed-rate private (non-federal) loans. These loans have lower interest rates and fees than federal PLUS loans for parents and graduate students while offering the security of a fixed rate. Demand for these loans has been steady; VSAC is exploring whether to offer borrowers holding older variable-rate loans the opportunity to refinance into a fixed-rate loan.

Also in 2010, total investments in VHEIP climbed to \$129 million. And VSAC scholarship donors maintained their commitments despite the recession, allowing VSAC to award a record \$5.3 million in private and public scholarships. Demand for services from the Career

In 2009, VSAC expanded the number of investment options and lowered fees in the 529 plan. In 2010, VSAC received awards for its online road maps for high school students and for Start Where You Are Pro, a Web site for professionals who work with students on career planning. In addition, VSAC provided a record \$5.3 million in scholarships. Despite increased demand for services, VSAC in FY10 again cut its budget and staff positions.

Elimination of the FFEL program requires continued austerity measures for FY11 and FY12. As VSAC's existing portfolio pays down, no longer will the agency be able to use loan revenues to underwrite state programs and match federal grants. In addition, the federal direct loan program that replaced FFEL will not provide Vermonters with the generous borrower benefits they had received from VSAC for the last 15 years.

Planning Initiative continued to grow, with the VSAC CPI team now working directly with 37 middle schools and high schools. *Despite growing demand for services, VSAC reduced its FY11 budget by \$2.4 million or 6.5 percent. VSAC also planned to eliminate 30 positions through attrition and reassignment. Over three years, VSAC will have reduced its budget by 18 percent (\$7.4 million) and its staff by 21 percent while striving to preserve programs and services to Vermonters.*

The Future

2011 will be marked by tremendous change at the Vermont Student Assistance Corporation. VSAC currently has an education loan portfolio of \$2.4 billion. As indicated earlier, this portfolio provides 88 percent of VSAC's revenue and all of the funds that are used to administer state programs and match VSAC's federal grants.

Elimination of the FFEL program means that this portfolio will add few if any new loans and will decline at a rate of approximately 8 percent each year as students and families pay off their loans. As a result, we expect that VSAC will have to reduce its budget by roughly 10 percent a year for the next three years. *VSAC will have to reduce its budget by \$3.4 million in FY12 with additional cuts in each of the subsequent years.* It is hoped that VSAC can continue to reduce positions through attrition and reassignment, but involuntary workforce reductions cannot be ruled out. The combination of fewer resources and staff reductions, unless mitigated by new revenues, will result in changes to and reductions in services delivered to Vermont students and families.

The effects of these changes will be significant. Through its access to tax-exempt financing, VSAC was able to offer Vermont students and families education loans that were less expensive than those provided by the federal government. In fact, VSAC provided families with principal rebates, discounts, and fee waivers totaling \$148 million. This number reflects the actual amount provided to borrowers and does not take into account the significantly greater savings that borrowers receive from the interest that does not accrue over the life of the loan on the principal that was rebated. Elimination of the FFEL program means that Vermont students and families will pay more for their loans; Vermont colleges and universities will lose benefits, programs, and services they have used to compete with schools from other states in attracting students.

In addition, VSAC uses roughly \$4 million from loan revenues to meet federal grant matching requirements (Talent Search, EOC,

GEAR UP, College Access Challenge Grant) and to fund programs to increase the aspiration and continuation rates of low- and middle-income students of all ages (College Pathways events, road maps, career planning, Paying for College sessions, and financial aid forms assistance at every high school). VSAC has used efficiencies from its operation of the FFEL program to provide matching funds and support state access goals. Unfortunately, these nationally recognized programs are experiencing greater and greater demand at a time when VSAC resources will be steadily declining each year.

Finally, VSAC has been able to administer the many state programs it oversees without drawing any state funds to cover these costs. The state grant programs, the Vermont high school survey, and programs for veterans, the Vermont National Guard, and youth in state custody all require resources that the state has not had to provide for the past 13 years. Unfortunately, as loan revenues decline, VSAC will not be able to continue all of these services without drawing on state funds for program administration.

Programs, Efficiencies, and New Revenues

Unless a new business model is successfully implemented, elimination of the FFEL program will result in the loss of previously mentioned services and as many as 200 jobs in Winooski. VSAC is working to identify and secure new sources of funds, prioritize programs, and find ways to make programs and services more efficient. This will result in substantial changes to the way services are delivered. While VSAC will go through significant contraction in the next several years, we are hopeful that we will eventually be able to rebuild, albeit in a new form, some of the critical programs and services that federal budget cuts are forcing us to eliminate. Our goal is to create an organization using a new business model, built upon the availability of fewer resources, that provides high-quality services to meet the needs of Vermonters.

By the end of FY12, VSAC will have reduced its budget by nearly 30 percent and eliminated more than 114 positions over four years.

VSAC Facility

In 2005, VSAC constructed a new building to house its complete operations. At that time, VSAC had 396 positions and projected modest growth in staff. Governors Dean and Douglas supported the construction of the building in its central location as part of a broader state effort to revitalize downtown Winooski. Completion of the building allowed VSAC to bring its entire staff back into a single building and created program, service, and facilities efficiencies. The building was designed and built using local materials and cutting-edge technologies

By the end of FY12, VSAC will have reduced its budget by nearly 30 percent and eliminated more than 114 positions over four years. Unless VSAC is able to replace lost FFEL revenues with other resources, the agency will need to cut valuable services to Vermonters and as many as 200 jobs in Winooski. However, VSAC is hopeful that it can weather the storm and rebuild, in a new form, the programs and services that Vermonters need.

Amid the discouraging developments, VSAC has continued to accomplish much. Its new building in Winooski earned a prestigious EPA Energy Star rating for efficiency. Participation in the 529 plan continues to be strong, with more than \$129 million invested. VSAC offered a new fixed-rate private education loan for 2010–11 that was less expensive than federal PLUS loans for parents and grad students.

to maximize energy efficiency. In 2009, the VSAC building was awarded a prestigious EPA Energy Star award for actual energy savings achieved. This award certifies that the VSAC building is among the 25 percent most energy efficient in the nation.

In 2010, Congress passed HCERA and eliminated the education loan program that supported the majority of staff positions at VSAC. VSAC has eliminated 84 positions over the past three years and anticipates eliminating more. VSAC's future staff needs will largely be determined by the loan servicing contract negotiated with the Department of Education. If VSAC does not receive a contract providing for sufficient volume and compensation, VSAC will have more space than it needs and will have to explore leasing out space within the VSAC building or selling the building and moving to a smaller site.

Vermont Higher Education Investment Plan (VHEIP)

The Vermont Higher Education Investment Plan was created in 1999 to encourage Vermont families to save for education and training after high school. This has become an important part of the path to college for many families. Today, more than \$129 million is invested in VHEIP.

VSAC administers VHEIP, but VSAC does not itself invest any of the funds provided by plan participants. This responsibility rests with TIAA-CREF, which provides asset and program management under contract to VSAC. VHEIP enjoys some of the lowest fees in the nation; unlike the situation involving many other state plans, neither the state nor investors pay fees to VSAC to administer the plan and oversee the asset manager.

As a result, funds invested in the plan are not at increased risk as a result of HCERA. With the exception of the Principal Plus Interest option, however, all investments are subject to the same market risk associated with any comparable investment and require appropriate investor diligence. These risks are independent of VSAC's role as plan administrator.

Private Education Loans

Vermont families and Vermont colleges have urged VSAC to do what it can to continue to offer private education loans as a supplement to federal education loans. Elimination of the FFEL program means that large lenders are turning all of their marketing resources toward encouraging families to take private loans with high variable rates. Anyone watching late-night television has encountered the return of predatory loan advertising that targets students and families lacking financial literacy. VSAC must, and will, step into this market to offer

reasonably priced private loans, to counsel families to borrow as little as necessary, and to advise students to maximize their use of grants and scholarships prior to borrowing. VSAC currently offers a fixed-rate private loan known as Vermont Advantage. This loan has a lower fee and interest rate than the federal PLUS loan for parents and graduate students. VSAC anticipates that this loan will continue to be necessary for students whose college expenses exceed federal loan limits or whose schools are not eligible to participate in federal aid programs. VSAC hopes to issue between \$20 million and \$30 million in Vermont Advantage loans each year, but remains committed to ensuring that students and families use private loans only as a last resort and that they borrow only what is absolutely necessary.

Vermont Tax Credit

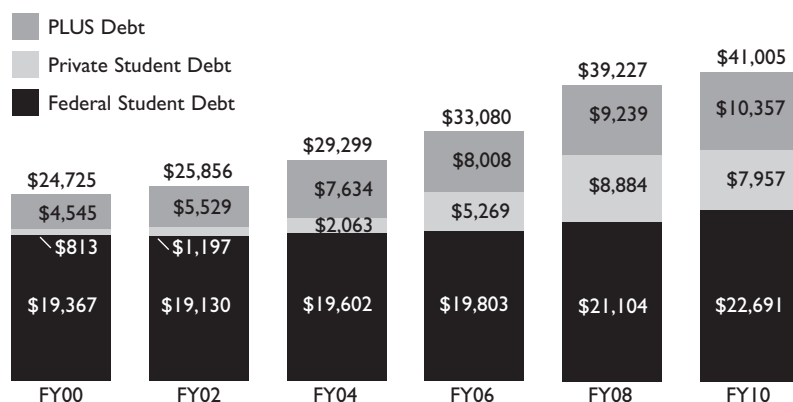
The state of Vermont stands at the crossroads of three critical demographic shifts.

- The number of Vermont high school graduates is declining steadily.
- Our population is aging; in fact, it is projected that the number of adults 65 and older will double over the next 25 years, while the number of taxpaying adults will remain the same or decline.
- Simultaneously, future job opportunities will require education or training after high school, and Vermont employers cite access to skilled workers as one of the critical barriers to economic growth.

Adding to this challenge is the high cost of postsecondary education in Vermont and across New England. Vermont students and their families have had to borrow significantly to pay for education and training and have one of the highest average education debt loads in the country. This debt affects the career choices that graduates make.

VSAC is attempting to help the state cope with demographic shifts that will reduce the number of high school graduates, increase the population of older Vermonters, and expand demand for educated workers. Adding to the challenge are the high cost of postsecondary education in Vermont and the significant education debt loads carried by many Vermonters, including the neediest students served by VSAC.

Average Total Debt Accumulated by Senior Year in School: Full-time Vermont Grant Recipients at Four-Year Schools



Federal student debt includes subsidized Stafford, unsubsidized Stafford, and Perkins loans. Private student debt includes non-federal loans from sources such as VSAC and colleges.

To mitigate increasing education debt loads, VSAC proposes adoption of a new state income tax credit for students who utilize private loans from VSAC and remain in the state to live and work. There is no single strategy that will address Vermont’s need to educate more students and attract more skilled workers, but healthy grant and scholarship funding and affordable loans are steps in the right direction.

Just as important to Vermont’s economic development, these debt loads encourage many Vermont students to leave the state to pursue higher-paying jobs in other areas.

Passage of HCERA created an additional challenge for Vermont families. Under the FFEL program, VSAC was able to use access to tax-exempt financing to reduce the cost of education loans. HCERA eliminated VSAC’s financing role and requires Vermonters to borrow directly from the federal government. As a result, Vermont students and families will not be able to receive VSAC borrower benefits on any new federal loans.

There is no single strategy that will, by itself, address our need to educate more Vermont students and attract more skilled workers to our state. Increased grant funding will create opportunities for Vermont students and reduce their dependence on education loans. However, we must also develop ways to reduce the cost of borrowing to encourage students to attend school and to stay in, or return to, Vermont to live and work.

VSAC is proposing the creation of a Vermont income tax credit for the interest paid on VSAC private loans (the Vermont Advantage loan) by individuals who live, work, and pay taxes in the state of Vermont. This credit will make education and training more affordable by reducing the cost of borrowing while restoring the competitive advantage Vermont colleges enjoyed under the FFEL program when seeking to recruit students. Under this program, a Vermonter who lives, works, and pays taxes in Vermont would receive a state income tax credit equal to 15 percent of the principal and interest he or she paid on the Vermont Advantage loan during the applicable tax year. The credit would be capped at \$500 annually.

Federal Direct Loan Servicing

VSAC pioneered efforts to provide comprehensive grant, scholarship, and loan counseling. This model allowed Vermonters to get answers to all of their financial aid questions with a single phone call. It also reduced unnecessary borrowing by ensuring that students applied for all the grants and scholarships for which they were eligible prior to the family taking out education loans. In turn, this contributed to VSAC borrowers having one of the lowest education loan default rates in the nation. In addition, 31 percent of VSAC’s loan revenue was used to pay the costs of administering its non-loan programs, including the state grant program.

The U.S. Department of Education does not support this model and believes that loan servicing should be focused entirely on the period when the student leaves school and loans enter repayment. Consequently, the direct loan model compensates servicers only for providing rudimentary repayment counseling, sending out bills, collecting payments, and pursuing delinquent borrowers.² Moreover, the department's pricing strategy is designed, as much as possible, to remove human interaction so that customers use self-service online or by telephone. This creates burdens for families in rural communities with limited access to broadband or lacking financial literacy or technological sophistication.

Elimination of the FFEL program was motivated, in part, by a desire to rid the system of large, for-profit lenders and servicers — and the profits and customer service abuses they were said to have caused. Unfortunately, when the Department of Education requested direct loan servicing proposals, it restricted participation to lenders currently servicing at least two million accounts. This limited eligibility to the very same lenders and servicers that the department originally sought to eliminate from the program. Because of their small size, nonprofit state-based agencies like VSAC were ineligible to even submit proposals. The four successful respondents received contracts at a set price based on the department's expectation that the companies would divide more than 30 million accounts among them. In addition, the department would make a substantial profit on student and parent loans for the foreseeable future.

The contracts that the department imposed dramatically change the postsecondary planning and financing experience of Vermont students and families. The department achieves cost savings by shifting responsibility for financial aid and loan counseling from agencies like VSAC to colleges' financial aid offices. In addition, the financial terms of the contracts require reductions in customer service hours, limited access to live customer service representatives, and greater use of customer self-service online. The department's primary objectives are to send bills, collect and post payments, and pursue delinquent accounts. To the extent they can be supported at all, repayment and financial counseling are low priorities.

The Vermont congressional delegation, representing the concerns of Vermont students and families, included language in the direct lending legislation requiring the Secretary of Education to contract with nonprofit state agencies (in states where they exist) to provide loan servicing to borrowers and to support colleges and universities in their states.

The new direct loan system eliminates the “front-end” loan counseling VSAC previously provided. This comprehensive advice ensured that students maximized gift aid before using loans and led to VSAC borrowers consistently maintaining among the lowest loan default rates in the nation. Loan servicing under the new federal system focuses on the “back end,” when students complete school and families begin repaying loans.

² Testimony of Robert M. Shireman, Deputy Undersecretary of Education, before the House Education and Labor Committee, May 21, 2009.

VSAC is working with the Vermont congressional delegation to overcome obstacles at the federal level that could adversely affect the number of accounts and the pricing VSAC receives for direct loan servicing. Even if direct loan servicing negotiations are successful, revenues will not be sufficient to cover the costs of administering VSAC's non-loan access programs, including outreach, state grants, scholarships, or other services.

Each nonprofit state agency was guaranteed a minimum of 100,000 accounts as a starting point, as well as a servicing fee that takes into account nonprofit state agencies' higher range and quality of services, smaller organizational scale, and ability to work within their local communities to increase access and minimize defaults. The language also encouraged the secretary to contract for the broader range of outreach and aspiration services that are provided by nonprofit agencies. These services are critical to the president's goal to increase the number of Americans who hold a postsecondary degree or credential.

Unfortunately, the Department of Education seeks to protect the volume and contracts of the four existing national servicers by implementing the legislation in a manner that violates the spirit of the agreement it reached with Congress. It wants to prevent agencies from working with borrowers and schools in their own states, and seeks to impose the same fee structure on nonprofit state agencies that it did on the large servicers. Compounding the challenge, the department has proposed an evaluation system that provides the four national servicers with an unfair and potentially insurmountable competitive advantage when determining whether a smaller nonprofit state agency will receive any additional accounts (see Appendix B).

VSAC is working with the Vermont congressional delegation and our sister agencies in other states to overcome this opposition and submit a proposal that will provide fair compensation and scale while permitting VSAC to provide Vermont schools and families with local customer service. Even if we are successful, we anticipate that VSAC will be a smaller organization and that it will take several years to achieve any economies of scale. *This means that, during the next three to four years, direct loan servicing will not provide sufficient revenue to cover the costs of administering VSAC's non-loan access programs, including outreach, state grants, scholarships, or other services (see Appendix C).*

The needs of Vermont students and families are rising rather than diminishing. Federal financial aid — excluding loans — will rise at the rate of inflation for the next five years and then be frozen. The price of postsecondary education and training programs, in contrast, is expected to continue to rise significantly higher than inflation for the foreseeable future.

VSAC decided to be one of the first nonprofit state-based agencies to respond to the Department of Education's direct loan servicing request for proposals so that we could take a lead role in negotiating. We submitted our servicing proposal in late November 2010 and expect to begin negotiations with the department in January of 2011. We hope to have an agreement completed no later than April 1 that would enable us to begin servicing direct loans on July 1, 2011.

VSAC expects to become a successful direct loan servicer. This is ultimately dependent, however, on the department's compliance with the spirit and letter of the HCERA legislative agreement reached with the Vermont congressional delegation. If the fee is too low to allow us to break even, if we are not able to service the loans of Vermont students and schools, and if we are capped at 100,000 loans, we will not be able to move forward with servicing. Failure to reach a reasonable agreement will result in the loss of more than 200 staff and the programs and services these staff provide. Even if we are successful in our negotiations, as we hope and expect, we do not believe that direct loan servicing will provide revenue to support non-loan-servicing activities during the next three to five years.

Outreach, Aspiration, and Continuation Programs

President Obama has established a national goal of having 60 percent of Americans obtain a postsecondary degree or certificate by the year 2020. This ambitious goal, supported by national foundations like Gates, Hewlett, and Lumina and endorsed by the Vermont higher education community, is critical to our international competitiveness and our ability to attract and nurture economic development in Vermont. The college-going rate for Vermont students whose parents have a college degree is 85 percent; the rate for students whose parents do not have a college degree is 64 percent. As a result, if we are to meet this goal and maintain the competitive strength of our workforce, we will need to significantly increase the rate at which first-generation, college-bound, low- and middle-income students pursue and obtain postsecondary education, training, or certificates.

VSAC has developed award-winning, successful programs for increasing the aspirations of these students. Elements of these programs are being studied and replicated in other states and regions. They build upon a combination of the expertise and experience of a dedicated cadre of counselors while expanding their reach through the use of social marketing techniques. All told, VSAC has more than 54,000 counseling and planning contacts with students of all ages.

These programs have been significantly subsidized by VSAC loan revenues and the efficiencies gained by training counselors to advise students on grants, scholarships, loans, and college and career planning. VSAC provides nearly two-to-one matches to the Talent Search and Educational Opportunity Center grants and provides a 33-percent match for the College Access Challenge Grant. These matching funds will not be available from the direct loan servicing contract. VSAC will have to continue to scale back services while working to secure new funding from other state, federal, and foundation sources.

VSAC has developed award-winning, successful programs for increasing college aspiration among Vermonters. Elements of these programs have been studied and replicated elsewhere. These programs can no longer be subsidized by VSAC loan revenues, so VSAC must work to secure new funding from state, federal, and private sources.

For most of its history, VSAC was authorized to use up to 10 percent of its state appropriation to administer state programs and match federal grants. Starting in FY97, VSAC stopped using state funds for administration in order to focus the entire state appropriation on direct aid to students. Due to federal changes, VSAC was authorized to use up to 7 percent of its state funding for administration in FY11. It will need to request this authority again for FY12.

State Grant Programs

From 1965 to 2001, state statute authorized VSAC to use as much as 10 percent of its appropriation to administer the state grant programs, match federal grants, and fund other programs. In 1997, VSAC completed a multi-year effort to use efficiencies from the education loan programs to cover these costs so that 100 percent of state appropriations could be provided directly to students in the form of grants. Elimination of the FFEL program means that, once more, VSAC will need to draw on state funds to cover some of the cost of running state programs and matching federal grants. Last year, VSAC received authority to use up to 7 percent of the appropriation for this purpose in FY11. VSAC will request this authority again for FY12.

Conclusion

As noted above, the recent federal legislation that terminated VSAC's ability to make new federal education loans is a very substantial, negative change to VSAC's business model. This change will reduce operating revenues significantly, putting great pressure on VSAC's longstanding outreach, grant, scholarship, and related services. In anticipation of, and reaction to, this development, VSAC during the past three years has reduced its budget by 18 percent (\$7.4 million) and its staff by 21 percent (84 positions). VSAC expects that it will reduce its budget by an additional 10 percent (\$3.4 million) in FY12.

In addition, VSAC is actively exploring other revenue sources, most importantly a direct loan servicing contract with the U.S. Department of Education. Under the best scenario, however, the revenue stream will not be as strong as under the FFEL program. VSAC will no longer be allowed to offer the "front-end" federal loan counseling services it had previously provided and will be forced to trim other programs upon which Vermonters have come to depend — at a time when these services are in high demand.

VSAC will continue to work with the Legislature, the governor, and the Vermont congressional delegation to identify and take advantage of all available options to supplement operating revenues and maximize efficiencies, while remaining true to the agency's mission. We appreciate the outpouring of support across the state as Vermonters learned of the potential consequences of the federal legislation, and will leverage that support in every way possible. VSAC is grateful for the steady support that legislators and governors have given VSAC and its programs year in and year out during the past 45 years.

summary of submissions



The VSAC Voices project

During the summer of 2009, as news spread of a proposal to dramatically alter the federal education loan system, the Vermont Student Assistance Corporation (VSAC) began hearing from customers seeking information or asking how they could make their voices heard. VSAC set up a Web site — www.vsacvoices.org — to provide background on the proposal and an online form that customers could use to submit stories of their experiences using VSAC to plan and pay for education or training beyond high school.

In creating the site, we wanted to explain that revenue from the existing Federal Family Education Loan (FFEL) program supports all of the free services VSAC provides — and that those services are at risk if the federal proposal is adopted and the government switches to “direct lending.”

We also wanted to know how our customers feel about our services. Would they want VSAC to continue serving Vermonters at the local level, or would they prefer the centralized approach envisioned in direct lending? Either way, we pledged to share all customer responses with Vermont’s congressional delegation in Washington.

Initially, we had expected to hear from a limited number of customers. When many hundreds of e-mails began pouring in, all but a few expressing heartfelt support, we were overwhelmed. The stories our customers submitted bring to life the array and human value of services that VSAC offers Vermonters and students attending Vermont institutions.

Who we heard from

VSAC elicited Voices stories in two stages.

First, in August 2009, VSAC used loan statement stuffers, e-mails, and letters to contact all types of customers — college savers, families participating in our outreach programs for low-income or first-generation college-bound students, attendees at VSAC events, grant and scholarship recipients, and borrowers.

“VSAC has been absolutely amazing at working w/me to stay out of collections when my chips were down. They are by far and away an absolutely amazing resource and the sole reason I was able to go to college! If VSAC goes away, so many VTers like myself may never go to college.”

~ College grad, Burlington, VT



The messages invited customers to send comments to VSAC via e-mail through the Voices site or by regular mail. This generated 788 e-mails and 19 letters — a total of 807 responses.

In late December, we followed up by e-mail. Those who had already responded received a message encouraging them to “fan” a new Save-Our-VSAC Facebook page created to provide updates on the federal proposal and a forum for customers to interact. Those who had not responded received a message letting them know they could still submit stories via the Voices site as well as become fans of the new Facebook page. This resulted in an additional 328 e-mail submissions as of January 19, 2010, bringing to 1,135 the total number of submissions from the Voices initiative. In addition, the Facebook page has more than 3,200 fans, some of whom have posted stories there.

The original text used to elicit the responses is included in the end notes.¹ Customers were asked to provide their current town of residence, and from this we learned that 66 percent of those responding live in Vermont.

How this summary is organized

The first 1,067 Voices submissions were analyzed and coded, based on themes that emerged from the collective set. Some stories contained up to three different ideas, so the 1,067 submissions yielded 1,610 coded ideas. This report presents the five leading response themes, in order of decreasing frequency:

- Real person, real solutions
- Portal of services
- Trusted expertise
- Partner in a key investment
- Small, local, and not-for-profit

In addition, a compelling thread emerged in the comments of individuals who accessed career services or postsecondary education as adults rather than directly after high school. These messages call attention to VSAC’s role in supporting the critical workforce development needs of adult learners and, we felt, merited inclusion in this summary in a sixth category we’ve titled Adult Learner Opportunities.

For each theme, a highlight of commonly mentioned ideas exemplifies the core message. The number and percent of customers who mentioned these ideas are included in parentheses. Representative quotations were selected to illustrate the themes in the customers’ own words.

Themes and representative comments

- I. Real person, real solutions.** We live in an age in which the public is increasingly frustrated by automated phone queues, excessive hold-times, marginally trained call-center staff, and miles of red tape. In contrast, our customers express great relief that when they contact VSAC with a question or problem, they reach a real person who can provide a workable solution (502 customers, 47 percent of respondents).

No other company would have worked so hard to explain the different loans and options available for me to pay for school or showed so much interest in caring for every step along the way. When I found a job, but didn't make enough money they worked with me to manage the loans so I could continue paying on time. VSAC has helped me so much I wouldn't even know where to start.

~ College grad, Sheldon Springs, VT

VSAC is always very helpful, understanding and a constant support in my educational pursuits. I always appreciated the ease of the loan and Vermont grant process while I was an undergraduate student. However, I did not fully understand the value of VSAC until I graduated and started to make payments on my loans. My payment process is convenient and straightforward. There is always a real person available to assist with my questions and concerns. Many of my friends who used other loan organizations are having the exact opposite experience. I am very grateful for the undergraduate experience that VSAC has allowed and strongly support their continued work. I would love to work with VSAC as I pursue a graduate degree.

~ College grad, Sudbury, VT

There are not enough words to describe what a difference VSAC has made in both my undergraduate and graduate experiences. There are so many horror stories about awful lenders out there, I always feel so fortunate to have VSAC. I know that when I call I will speak to a real, caring human being. VSAC is a wonderful organization and it makes me very sad to think that future Vermont students won't be able to utilize the same services that I did.

~ VT serviceman, U.S. military base, Japan

We have experienced both VSAC assistance and Direct Lending, and hands down VSAC wins on service. Both of our sons tried to consolidate their student loans in 2005. The loan consolidation went thru VSAC without trouble. The Direct Loan consolidation was never properly processed. They did nothing to communicate their supposed problems with the form. Their computer sent out confusing letters, misleading us and costing our son much higher interest expenses. They made no attempt to correct concerns despite the timeliness of the application. It was a horrible experience that we continue to try to forget.

~ Parent, Essex Junction, VT





I run a mobile computer training lab in a rural county with few government services, and my students rely on VSAC for the excellent career guidance and job training grants they provide. Having worked closely for two years with a VSAC educational counselor, who solely delivers outreach services to adult learners in two counties, I can testify to the value of this outstanding organization and their accessible, knowledgeable and dedicated staff. In short: VSAC is vital to Vermonters!

~ Agency administrator, Grand Isle, VT

I have had a long educational journey, and VSAC has been there every step of the way! I love the fact that every time I call I get to talk to a real person who is dedicated to helping me sort through the maze of financial aid. They are always polite, helpful, and supportive. VSAC is a local organization that has ties to many of our communities. They understand the needs of their customers and offer excellent resources for new and old students alike. I would like to thank VSAC for explaining the answers to my questions with sincere thought and clarity. You have done so much for so many people it would be a shame to lose such an amazing organization that serves so many of our communities.

~ College grad, Chester, VT

The help VSAC provided me was INVALUABLE! First and foremost, I was able to speak to a person as opposed to a machine when I asked for assistance. Second, the advice I received was well informed and presented to me in a way, a clear way, that I was able to make the right financial choice for me and my family. Third, and last, during my repayment period I have received superb customer service. This high level of service encourages me to pay my monthly payment on time. Please keep this program going.

~ College grad, Austin, TX

VSAC has been attentive, accessible, and fair in all of our business. When I have been unable to work full-time, they adjust my payments. When I have extra money to make payments, they explain to me exactly how it benefits me — how much to principal, how much to interest. You may think these are baseline services a student-loan company would provide, but it isn't so: from friends and former classmates, I have heard about long call hold times to talk to someone who has an accent they can't understand, and perpetual threatening letters that rain penalty upon penalty and fee upon fee, with no way to talk to someone to negotiate a win-win solution. ... Regulate those that need regulating ... But leave VSAC and other companies like them (if there are any) to their own devices. They have a working business model that serves the lender and the student — and their employees, as well.

~ VT college grad, New Haven, CT

- 2. Portal to services.** VSAC is perceived not only as a source of education loan information but a nexus of information about grants, scholarships, post-secondary education, and career choices. VSAC customers like this bundle, viewing VSAC as an efficient and highly desirable model for the nation (222 customers, 21 percent of respondents).

Being a first-generation college student, my family and I were completely confused when it [came] time to apply to colleges and complete financial aid forms. VSAC paired me with a counselor in my junior year of high school to help put me on the right track. Not only did my counselor help me find a school I like, but she even came to my house and helped my parents fill out the financial aid forms that were needed. I cannot thank VSAC enough for how much they have helped me in the past few years. I feel blessed to have the opportunity to attend college, and I know that VSAC was a large part in making this dream become a reality for me.

~ First-generation student, Randolph, VT

VSAC first appeared when I was high school, telling students about how they can afford college, despite the monumental fees associated. I used their resource center to locate and ultimately pick an undergraduate college, borrowed money throughout college with VSAC, and consolidated my loans. I was always dealt with professionally and was given stellar advice that I knew was directed at my best interest as a student, not as a money-maker for the organization. I continued on to graduate school, again borrowing from VSAC. When it came time for deferment, VSAC was once again there to provide advice and process my requests, allowing me to move abroad and live in Thailand. VSAC is an integral part of making the college dream a reality and it would be a disservice to thousands and would leave a gaping hole if it were to end.

~ College grad, Grand Isle, VT

I can not begin to thank VSAC for everything they have done for me. I think the service and support is essential. I returned to college at the age of 45. To say I was clueless about the protocol would be an understatement. VSAC offered educational sessions, offered an easy-to-use web site, and verbal communication was always personable. They make managing my loans understandable at an affordable rate. My daughter has also been with a VSAC counselor throughout her high school years. The guidance she has received is irreplaceable. I would not alter the way VSAC is doing business. The government should take lessons!

~ Nontraditional student and parent of outreach student, Corinth, VT

I am a guidance coordinator at a career and technical center. This last year I worked with a female student who had been in foster care and then turned 18. Through the help of VSAC, we were able to find her four different sources of funding beyond federal grants and loans to help her attain her dream to go to UTI Nascar Institute. Without the coordination and administrative support supplied from VSAC, I would have found it very difficult to help this student ... It is a daunting process for even the most experienced person — almost impossible for families that have never tried to access funding for postsecondary schools — so for a foster student without coordinated help this would have been impossible.

~ Career and technical center counselor, Bradford, VT

As a school counselor for the past 24 years ... I can attest first-hand to the important work that VSAC's outreach counselors do for students who are eligible for their services. They ... go the extra mile with needy and deserving students in providing the essential career awareness, postsecondary planning and financial aid education that is critical if one is successfully going to transition to postsecondary schooling.





VSAC is a life raft for these families (many are poor or first generation) in which they do home visits, college visitations, and in-school visits to assure that the family is properly informed and supported through the entire process of applying to college. These outreach counselors are true professionals that can not be replaced by public school staff who have a much different focus and case load. In essence, if programming is cut from VSAC, hundreds of students in Vermont will fall through the cracks and not be able to realize their dream of going to college.

~ School counselor, White River Junction, VT

- 3. Trusted expertise.** Parents and students need information to make the right decisions for *their own* situations. Vermonters trust VSAC to provide information that is current and credible, and is communicated with *their* best interests in mind (180 customers, 17 percent of respondents).

Every single time I speak with a VSAC loan counselor, I feel like they genuinely care and want to help me achieve my goals. The difference between VSAC and other loan agencies is simple, they are a non-profit and can offer support without strings attached. Their behavior has nothing to do with their own financial gain, which means customers are treated like human beings, and are given the care and concern they deserve. I'm extremely grateful for the support I have received, and in turn, must support VSAC and other non-profit loan organizations so they may continue to help other families and individuals achieve the freedom an education can provide.

~ VT college grad, Seattle, WA

Going thousands of dollars into debt is not exactly a fun process. Indeed, there is a lot of mystique and anxiety involved in college loans; yet VSAC works painstakingly to be as transparent and supportive as possible. I am grateful for more than just low interest rates or online bill payment features. I am grateful for the humans who help me at VSAC with patience, kindness, and expertise. I cannot claim to know the economic ins and outs of loan lending, yet the people at VSAC take the time to explain complicated issues and educate me on making the best decisions. I am not just a dollar sign or an account number — I am treated with respect. Now I am dealing with graduate loans via Direct Loan and am fully realizing the superior quality and service with VSAC. Thank you VSAC, for being so understanding throughout all these years.

~ Grad student, Roxbury, VT

I trust VSAC to give me accurate and unbiased information about educational funding options. I comparison shopped for educational loans, for my kids, several times over the past 13 years my kids have been in college and consistently find VSAC the best choice. The rebates and discounts received through VSAC have been helpful. The personalized customer service is great.

~ Parent, Jericho, VT

Go VSAC! You are an outstanding resource, someone I can count on to help me navigate the world of financial aid and loans.

~ College student, Montpelier, VT

As a CPA, I frequently refer clients with complicated financial-aid situations to VSAC, knowing they will receive good information and clear answers to their queries. As a parent, I have relied on the information and resources available to me as I guided my own family through the college application and financing process. It would be a huge loss to Vermonters if VSAC were not available to my clients for college application and financial aid information.

~ Certified public accountant, Monkton, VT

- 4. Partner in a key investment.** Vermonters see postsecondary education for themselves and their children as one of the most important financial investments they will make in their lifetimes. In addition to seeking competitive loan rates, Vermonters want the value-added services provided by VSAC, both for decision-making at the front end of the career and college planning process and for protection in the event that job loss, illness, or another unforeseen situation interferes with loan repayment (179 customers, 17 percent of respondents).

VSAC has provided expert financial counsel and practiced safe lending practices that have helped me reach my educational goals with a minimal rate of interest. It is a pleasure to speak with my friends and neighbors ... whom I trust to ensure my financial obligations are met without taking advantage of my economic vulnerability. The government would be doing a grave injustice to the residents of not only Vermont, but all states who rely on the Federal Family Education Loan programs to continue their pursuit of higher education and ultimately the American dream.

~ Parent, Fairfield, VT

I come from a very large dairy farming family here in Vermont. Ironically, I will be one of the few people in my extended family to graduate with an agriculture-related bachelor's degree. VSAC has been my financial partner from day one with great services and fantastic support. Even when I needed a loan yesterday, VSAC representatives would spend time on the phone with me to meet my obligations. Thank you so much VSAC!

~ College student, East Fairfield, VT

VSAC has been my lender since 1993. They have worked with me and helped me through several job losses and really been there for me. Their advice and ability to work with my situation have been a life saver economically speaking. The counselors at VSAC are unlike any other company... they know me as a client and I know I can count on them.

~ VT college grad, Alliance, Ohio

VSAC provides great financial aid counseling services. Vermont has no major cities and if these services are taken away, people will be forced to rely on websites and phone services, which are frustrating to use, especially for people unfamiliar with the loan process. VSAC is approachable and clear, and always professional. I consolidated my loans with VSAC because I wanted to work just with you! What a relief to have support for such an important financial part of my life! Thank you!

~ School counselor, Whiting, VT





VSAC has been absolutely amazing at working w/me to stay out of collections when my chips were down. They are by far and away an absolutely amazing resource and the sole reason I was able to go to college! If VSAC goes away, so many VTers like myself may never go to college.

~ College grad, Burlington, VT

In 1997 I decided to change careers and go to culinary school in Vermont. VSAC was invaluable in helping me understand the process of student loans. In addition, they were the most upfront and honest people about how much I would actually be paying once interest was calculated in. They've been easy to work with during the duration of payment, helping me both consolidate and when I had a brief financial hardship, they were the nicest of my loan holders regarding a forbearance. Because of them I maintained my credit rating and had enough money to live. There are many other benefits of VSAC, including their rebate programs. I highly encourage saving VSAC.

~ VT college grad, Portland, OR

I came from a blue collar family with hard-working parents and four children The only reason I was able to make it work financially was because of VSAC. Not only did VSAC provide a low-interest loan, but it also provided a financial education. This was especially important after college, because it eliminated the fear and dread that can come with having financial stress. VSAC's effective and personable customer service is what always kept me on track. It allowed me to take advantage of career and continuing education opportunities while surviving financially. VSAC never failed to come up with a solution for re-paying my loan. Help was always a phone call away! Losing VSAC would put many people in a bad position for acquiring a spiraling debt in this economy, because there are many who do not otherwise have the resources to understand the entire process. VSAC helps those who need it most achieve their goals and keep their finances under control. I am so thankful for the foundation it gave me, which allows me to now have the means to give back to my community and my country!

~ VT college grad, Boston, MA

Faced with the high cost of going to graduate school, I looked far and wide for ways to finance my education. After looking at several lender options — public and private — I decided on VSAC. You stood out as a lender that I could count on to be an advocate for me in financing my education as affordably as possible. Whether it was helping me formulate my loan options or dealing with my school's often-difficult financial aid office, VSAC was always on my side and I am forever appreciative.

~ Grad student, Middlesex, VT

- 5. Small, local, and not-for-profit.** VSAC customers want to work with someone who understands their local communities; can refer them to the right place, office, or even person; and who has the willingness and ability to make accommodations when unexpected situations arise (161 customers, 15 percent of respondents).

I felt like VSAC was not a faceless entity but rather a collection of fellow Vermonters who were on my side and were truly interested in helping me, and students like me, go to college and responsibly manage loan repayment. I hope future students can have the same positive experience I had. Please keep VSAC alive and vibrant, they made the burden of student loans manageable and gave me hope that, for some lenders, I was not just a number on a balance sheet, but a student and a professional who needed help along the way.

~ College grad, St. Johnsbury

Vermont has a very special program in VSAC. Because of the close connections that VSAC has with students and with parents, I have always felt that I was better taken care of in my journey than I could ever be with a commercial or a national lender. If VSAC were to be disbanded, I would be measurably worse off because of the great services that it provides. ... It is because of the services of state organizations like VSAC that I am so proud to be a Vermonter and could think of no better state to live in!

~ College grad, St. Johnsbury

I have visited VSAC numerous times throughout the past two years. Every time I left the building I felt more relaxed and confident regarding issues I was having problems with. Everyone there, from the help desk to the billing department has been great in getting all my concerns taken care of. They have been more organized than the colleges I have dealt with in the past two years. Thank you to all the staff there.

~ College student, Winooski, VT

I am not a Vermont resident, but my one year of attending college in Vermont has allowed me the option to continue to borrow from VSAC. I can happily say, for the past nine years VSAC has been my primary lender for both my undergraduate and, currently, graduate education. When I do have to make decisions about borrowing, I always think how fortunate and secure I feel, knowing that I am borrowing from a small, non-profit organization that stands behind their mission. VSAC has allowed me to grow into a responsible borrower. I can always rely on speaking to someone who is competent and helpful as I navigate this process. I also appreciate their assistance through e-mail and the web, it makes asking questions convenient and quick. Thanks so much VSAC for standing behind your mission!

~ VT college grad, Somerville, MA

Please, keep this in the hands of the state. It's so precious to be able to work with local partners like VSAC!!!! Nothing works smoother or better.

~ College student, White River Junction, VT

6. Adult learner opportunities. Although people tend to think of college as an option for the young, poignant responses from VSAC customers who went back to school as adults remind us that Vermonters' need for access to postsecondary education and training opportunities throughout their lives has never been greater — particularly as rural communities' traditional farming and manufacturing sectors give way to information- and technology-based economies.



VSAC

I entered college at age 37, long past the age where I would have access to high school guidance counselors. VSAC really helped me negotiate the mountain of paperwork that I had to fill out for financial aid and loans. I sincerely appreciated the fact that they are local and very willing to help. With their assistance, I earned a bachelor's degree, and I am now looking into a master's program.

~ Adult learner, Hudson Falls, NY

VSAC gave me hope when I thought there was none I am 43 years old. I have worked jobs that have worn on my body all my life and I wanted nothing more than to try and get a degree in a field where I would not have to cause any-more damage to my body than I already have. I put off going to college because I thought there was no way I could ever afford such a expense. I thought my past history would stop that from being a possibility considering I spent ten years of my life in jail. I decided to go to VSAC to see what they could do for me if anything. I was pleasantly surprised with the outcome of that meeting. Not only would I be able to go to college but they would make it so that I wouldn't have to worry about the expense of books or classes. I don't think I would have ever been given the opportunity to get a higher education if VSAC wasn't there for me or other people in my same situation who may have made mistakes in their youth so they had to put off education until late in life ... if VSAC is not there in the future I see people like me being stuck in a life they could not possibly change if not given a chance and the resources to make those changes for the better.

~ Formerly in Corrections, Burlington, VT

Ten years ago I found myself a single, scared, displaced mother with no college degree. I have found VSAC's support invaluable as I used sheer determination to recreate myself. I am one semester shy of having my doctoral coursework done. I got a job at Community College of Vermont in 2007 and am committed to giving back to the state I so love and to the students I can be of the most service to. VSAC's outreach programs provide a lifeline to all Vermonters, but no where do I personally think they hit the mark more than in the rural areas where unemployment is high and first generation students abound.

~ Former homemaker, Danville, VT

Ten years ago I was recently divorced, a single mom with a three-year-old, and only an associate of arts degree in fashion design under my belt. I decided that I wanted to help make the world a better place, so I matriculated at Castleton State College in the sociology department. I had no job, and only child support to get by on. Four years later, I graduated summa cum laude with high honors in sociology. I couldn't have done it without VSAC. After graduation, VSAC helped me consolidate my loans to lock into an incredibly low interest rate that I could afford. Today, I need VSAC again because I am continuing my education to become a social studies teacher at the secondary level. It will be especially difficult to accomplish this goal without VSAC. Please don't take away one of our lifelines to higher education. Thank you!

~ Teacher trainee, Rutland, VT

When I needed to go back to college, I found that VSAC was great to work with and securing a loan was easy. Anytime that I had a question, I was able to call and get a person to talk with usually within ten minutes ... don't forget the adult learners as both my wife and I have found that we needed to return to school in our 40s and now 50s in order to retool ourselves as our jobs were taken away by corporate greed. Thank you,

~ Mid-life learner, Waterford, VT

VSAC showed me the way when it came to paying for my education. I was a single mother and wanted to get an education and had no clue where to go. I met with a woman who works for VSAC, and she showed me how a college education is/was possible. I am now finishing my bachelor's and will start my master's in May. When I met with VSAC the first time I did not even have a GED, they assisted and educated me about how this dream could come true! and it is....

~ Single parent, Barre, VT

If it weren't for VSAC, I wouldn't be attending nursing school right now. Cutting back to part-time work would make going back to school impossible if it wasn't for my loan through VSAC. My heart and soul have been telling me that we need more compassionate nurses so at 43 I decided that this is what I wanted. Please preserve the FFEL program.

~ Nursing student, Enfield, NH

Negative responses

It should be noted that not all of the feedback VSAC received was glowing. Thirty-four customers, representing three percent of responses, wrote to tell us about the ways they felt VSAC had fallen short of its stated mission. We took these responses as seriously as the complimentary stories and have included them in the collection of messages being provided to Vermont's delegation in Washington, the Vermont media, and the public. We also reviewed each negative response to see if follow-up was warranted. In some cases, there was a clear misunderstanding that we felt could be addressed by contacting the customer and offering additional counseling. In other cases, the concerns involved issues over which VSAC has no control: the cost of higher education, lack of sufficient funding for student grant aid, and federal rules governing loan interest rates and consolidation policies. We certainly understand customers' frustrations with these issues and wish we could do more to address them.

In closing

Distilling the heartfelt responses of more than 1,000 VSAC customers from all 14 counties of Vermont, across the U.S., and as far away as Japan is not easy. VSAC would like to thank and recognize those who took the time to share their compelling stories with us. They bring a collective perspective that is invaluable in understanding the ways that decisions at the federal level play out in communities and individual households throughout Vermont.



VSAC

¹ **Original Prompt:** Congress is rapidly advancing an administration proposal to replace the Federal Family Education Loan, or FFEL, program with government-direct lending. The Vermont Student Assistance Corporation (VSAC) uses revenues from participation in FFEL to support all of our free college planning and financing services. If the proposal is approved, we will no longer be able to offer the array of services we currently provide and our borrowers will be forced to deal with a national loan servicer elsewhere in the U.S. or even off-shore. These changes will take place without a corresponding reduction in the cost of financing your education. The future of higher education will be decided soon.

You can make a difference.

You can help VSAC continue its important work by making your voice heard. Visit www.vsacvoices.org to tell us how VSAC partnered with you on your pathway to college. After all, there is no value in a new higher education loan system if it means you must pay more for fewer services.



**Vermont Student
Assistance Corporation**

10 East Allen Street, PO Box 2000
Winooski, VT 05404
Toll-free **800-642-3177**
In the Burlington area **655-9602**

Online at www.vsac.org
E-mail us at info@vsac.org

Appendix B — **News stories on direct loan servicing**

For the electronic version of this legislative report, VSAC received permission from The Chronicle of Higher Education and The Burlington Free Press to provide links to the following news stories. To access each story, copy the link and paste into your browser.

Plan for Assigning Loan-Servicing Contracts Draws Complaints

By Kelly Field

Published October 13, 2010

The Chronicle of Higher Education

<http://chronicle.com/article/Plan-for-Assigning/124909/>

VSAC vies to keep Vermont accounts

Local servicing of state's loans could disappear

By Tim Johnson

Published October 18, 2010

The Burlington Free Press

<http://www.burlingtonfreepress.com/article/20101018/NEWS02/101050001/1007/>

[VSAC-vies-to-keep-Vermont-accounts](#)

Appendix C — VSAC Services

Career Exploration

- Career fairs
- Choosing a career (library materials, workshops, online tools)
- Career planning curriculum consultations at 35+ middle and high schools statewide

Education Aspiration (Services for Adult Learners)

- *Adult Student Handbook*
- Educational Opportunity Center (EOC) counseling program for economically disadvantaged adult learners
- Education and training counseling for state Reach Up participants transitioning from public assistance
- Counseling of individuals incarcerated in Vermont's correctional system
- Vermont Works for Women and other re-entry programs for individuals leaving correctional system

Education Aspiration (Services for Middle School & High School Students)

- *Start Where You Are* college access program (www.startwhereyouarevt.org)
- Talent Search and GEAR UP counseling programs for economically disadvantaged middle and high school students
- Workshops on a variety of college and career planning topics in middle and high schools
- Collaborations to identify foster youth and help them access career and college counseling and college funding

Education Planning and Preparation

- *Planning Guide for Grades 7–12* for parents
- Road maps containing planning tips for students in all four high school grades
- Online widgets providing access to VSAC career and education planning tips via high school Web sites
- College Pathways events for high school sophomores, juniors, and parents (dozens of topics)
- College search and selection (library materials, workshops, online tools)
- College application essay writing (library materials, workshops, online presentation)
- Standardized test prep (library materials, workshops, online tools)
- Grad student resources (library materials, workshops, online tools)

General VSAC Services

- VSAC Resource Center offering library, individual counseling, workshops, and public access computers (28,000 walk-ins annually plus many others accessing library remotely)
- Financial literacy training (participation in Vermont's Jump\$tart coalition, Mapping Your Future, initiatives with Vermont's governor and state treasurer)
- Research on Vermont postsecondary aspiration, continuation, and completion (school-level and statewide research and reports)

continued on next page

Paying for College

- *Paying for College Guide* for students and parents
- *No-Nonsense Guide to Education Loans* for students and parents
- Paying for College presentations at high schools statewide and online
- Assistance with financial aid forms at high schools statewide
- Financial aid counseling, including individualized advice on loan options and processes
- Financial aid award comparison tool (available in print and online)
- Administration of Vermont full-time, part-time, and non-degree grants
- Administration of grant funds through the state's Next Generation initiative
- Scholarship search assistance (library materials, workshops, online presentation and resources, *Scholarships for Vermonters* booklet)
- Origination and servicing of private student loans

Repayment Services

- Exit counseling on college campuses for students about to graduate and begin repayment
- Borrower benefits (saved VSAC borrowers \$148 million from FY95 through FY10 through discounts, rebates, and fee waivers)
- Deferment, forbearance, and repayment counseling
- Debt management counseling and default aversion activities

Saving for College

- Saving for college (library materials, workshops, *Saving for College* booklet)
- Administration of Vermont Higher Education Investment Plan (Vermont's official 529 college savings plan)

Services for Education Professionals

- *Start Where You Are Pro* resources for educators and others who work with students (www.startwhereyouarevtpro.org)
- Career and financial aid training for school counselors
- Training for colleges' financial aid officers
- Training for Vermont agency personnel