

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES

APPROPRIATIONS COMMITTEE
BUDGET HEARING

STATE CAPITOL
HARRISBURG, PA

MAIN CAPITOL BUILDING
140 MAJORITY CAUCUS ROOM

MONDAY, MARCH 2, 2020
3:00 P.M.

PRESENTATION ON
PENNSYLVANIA HIGHER EDUCATION
ASSISTANCE AGENCY (PHEAA)

BEFORE:

HONORABLE STANLEY SAYLOR, MAJORITY CHAIRMAN
HONORABLE ROSEMARY M. BROWN
HONORABLE LYNDA SCHLEGEL CULVER
HONORABLE SHERYL M. DELOZIER
HONORABLE GEORGE DUNBAR
HONORABLE JONATHAN FRITZ
HONORABLE MATT GABLER
HONORABLE KEITH J. GREINER
HONORABLE SETH M. GROVE
HONORABLE MARCIA M. HAHN
HONORABLE DOYLE HEFFLEY
HONORABLE R. LEE JAMES
HONORABLE JOHN A. LAWRENCE
HONORABLE JASON ORTITAY
HONORABLE CLINT OWLETT
HONORABLE CHRISTOPHER B. QUINN
HONORABLE GREG ROTHMAN
HONORABLE JAMES B. STRUZZI II

* * * * *

Debra B. Miller

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BEFORE (continued):

HONORABLE JESSE TOPPER
HONORABLE RYAN WARNER
HONORABLE JEFF C. WHEELAND
HONORABLE MARTINA A. WHITE
HONORABLE MATTHEW D. BRADFORD, DEMOCRATIC CHAIRMAN
HONORABLE DONNA BULLOCK
HONORABLE CAROLYN T. COMITTA
HONORABLE ELIZABETH FIEDLER
HONORABLE MARTY FLYNN
HONORABLE ED GAINNEY
HONORABLE PATTY KIM
HONORABLE STEPHEN KINSEY
HONORABLE LEANNE KRUEGER
HONORABLE STEPHEN McCARTER
HONORABLE BENJAMIN V. SANCHEZ
HONORABLE PETER SCHWEYER

ALSO IN ATTENDANCE:

HONORABLE MARK M. GILLEN
HONORABLE BARBARA GLEIM
HONORABLE CAROL HILL-EVANS
HONORABLE MARYLOUISE ISAACSON
HONORABLE MICHAEL PEIFER
HONORABLE CURTIS G. SONNEY
HONORABLE MIKE TURZAI, SPEAKER OF THE HOUSE

COMMITTEE STAFF PRESENT:

DAVID DONLEY
MAJORITY EXECUTIVE DIRECTOR
RITCHIE LaFAVER
MAJORITY DEPUTY EXECUTIVE DIRECTOR

ANNE BALOGA
DEMOCRATIC EXECUTIVE DIRECTOR
TARA TREES
DEMOCRATIC CHIEF COUNSEL

I N D E X

TESTIFIERS

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SUBMITTED WRITTEN TESTIMONY

* * *

See submitted written testimony and handouts online under "Show:" at:

https://www.legis.State.pa.us/cfdocs/Legis/TR/Public/tr_finder_public_action.cfm?tr_doc_typ=T&billBody=&billTyp=&billNbr=&hearing_month=&hearing_day=&hearing_year=&NewCommittee=Appropriations&subcommittee=&subject=&bill=&new_title=&new_salutation=&new_first_name=&new_middle_name=&new_last_name=&new_suffix=&hearing_loc=

1 P R O C E E D I N G S

2 * * *

3 MAJORITY CHAIRMAN SAYLOR: I call the
4 Appropriations Committee back to order.5 And if you would rise as you are about to present
6 testimony and raise your right hand:7 Do you swear or affirm that the testimony you are
8 about to give is true to the best of your knowledge,
9 information, and belief? If so, say "I do."

10

11 (Testifiers responded "I do.")

12

13 MAJORITY CHAIRMAN SAYLOR: Very good.

14 And with that, we'll get started right away with
15 Representative Grove.

16 REPRESENTATIVE GROVE: Thank you, Mr. Chairman.

17 Good afternoon. How are you?

18 PRESIDENT STEELE: Good. How about you,
19 Representative?

20 REPRESENTATIVE GROVE: Doing well.

21 So in July of this year, Nicole Rayfield, former
22 university administrator for Cheyney University, filed a
23 lawsuit in U.S. District Court for the Eastern District of
24 Pennsylvania under the State's Whistleblower Law for
25 wrongful termination and family medical leave. The lawsuit

1 involved some Federal dollars, but more importantly, it
2 impacted the Bond-Hill scholarships and the Cheney Keystone
3 Academy.

4 Now, interesting timing, because July is the
5 beginning of our fiscal year. That year, we approved an
6 increase in both those programs from 697 to 800 for the
7 Bond-Hill scholarship, and then the Cheney Academy got an
8 increase of 1.813 million to 3.5 million. In the lawsuit,
9 it alleges that the scholarships went to unauthorized and
10 improper sources, quote, "leftover scholarship funds to pay
11 certain staff member salaries, including those in the
12 financial aid and bursar's offices."

13 One, were you aware of this lawsuit, that it was
14 filed?

15 PRESIDENT STEELE: We were aware of the lawsuit
16 from media reports. And just broadly speaking, we do have
17 monitoring activities that we do, not just with the two
18 programs you have mentioned but with all the programs, the
19 State Grant and the other programs. We routinely conduct
20 monitoring exercises at the schools that receive funding
21 from PHEAA.

22 REPRESENTATIVE GROVE: Okay. So this, A, should
23 have been picked up in that monitoring if they used it for
24 outside sources, unless, of course, we're talking about a
25 complex scheme to defraud the Commonwealth. In that case,

1 you wouldn't have picked it up, because there would be no
2 financial records.

3 PRESIDENT STEELEY: So, we did specifically do a
4 program review of Cheney---

5 REPRESENTATIVE GROVE: Okay.

6 PRESIDENT STEELEY: ---and I believe these two
7 programs? Correct, Mr. Hench?

8 SENIOR VICE PRESIDENT HENCH: Mm-hmm. Yep.

9 PRESIDENT STEELEY: And nothing was uncovered as
10 part of that program review.

11 REPRESENTATIVE GROVE: Okay. So the data you
12 were getting from the university didn't show anything, to
13 be correct.

14 PRESIDENT STEELEY: That is correct.

15 REPRESENTATIVE GROVE: Okay.

16 With that lawsuit pending from obviously an
17 inside source and the fact that they are asking for
18 significant increases this year, was that a recommendation
19 from you for the increases or was that coming from the
20 Administration?

21 VICE PRESIDENT McCLOUD: So for the Bond-Hill
22 program, PHEAA acts as the disbursing agent on this
23 program, and what we do is we gather from PDE their request
24 to put in with our budget request to the Governor's Office.
25 So that amount that was requested for 2020-21 came to us

1 from the Department of Education.

2 REPRESENTATIVE GROVE: From PDE. Okay.

3 And then the Cheney Keystone Academy, was that a
4 request from Cheney up to you?

5 VICE PRESIDENT McCLOUD: That comes to us through
6 PASSHE.

7 REPRESENTATIVE GROVE: Through PASSHE. Okay.

8 How does PASSHE's role interact with you and then
9 Cheney on those two programs?

10 VICE PRESIDENT McCLOUD: So with both of those
11 programs, information is coming to us directly from either
12 PDE or PASSHE. We are not interacting as directly with
13 institutions other than to disburse funds to institutions
14 as requested by the administrators of those programs.

15 REPRESENTATIVE GROVE: Got you.

16 And in light of the whistleblower, I mean, again,
17 the data you got from Cheney did not reflect what the
18 whistleblower is saying. Does that give you pause on doing
19 an increase at that point until this is resolved, that the
20 result of this lawsuit is finalized? Are you looking for
21 additional ability to go in and making sure that, audit
22 capabilities or so forth to make sure you're getting
23 factual information? Kind of, what are you doing to try to
24 mitigate risk with these?

25 MAJORITY CHAIRMAN SAYLOR: I would ask you all to

1 pull your mics a little closer to you for PCN and for our
2 stenographer. Thank you.

3 PRESIDENT STEELEY: As for the increase, like
4 Ms. McCloud said, that did come through a combination of
5 the Department of Education and PASSHE.

6 That being said, it also went through PHEAA
7 Board's Needs Analysis Committee, and ultimately, the
8 request was reviewed by the full board and before it was
9 submitted to the Governor's Office.

10 REPRESENTATIVE GROVE: Okay.

11 PRESIDENT STEELEY: So, you know, ultimately, you
12 know, I think to the governance level of PHEAA, the request
13 was reviewed and determined to be submitted.

14 REPRESENTATIVE GROVE: Okay.

15 PRESIDENT STEELEY: As for ongoing monitoring
16 activity, Mr. Hench's shop does continuous monitoring,
17 again, not just of Cheney University but of pretty much
18 every college in the Commonwealth that receives funding,
19 you know, as to whether there is more or less that should
20 be done. If one has a lawsuit, you know, that, I guess, is
21 something that we could look into.

22 REPRESENTATIVE GROVE: Mm-hmm.

23 I mean, and to let you know, this does seem like
24 more of a complex, if the whistleblower is correct, it is
25 more of a complex, internal, I would say fraud scheme than

1 anything else, so.

2 But that's time. Thank you.

3 MAJORITY CHAIRMAN SAYLOR: Representative
4 Comitta.

5 REPRESENTATIVE COMITTA: Thank you, Mr. Chairman.
6 Good afternoon, Mr. Secretary and team.

7 In the 156th in Chester County, I am -- we are --
8 so lucky to have two PASSHE schools, Cheney and
9 West Chester University. So the Governor in his budget
10 address announced the Nellie Bly Scholarship Program, which
11 is a multifaceted program in that it will help students in
12 the State's university system achieve their dream of
13 earning a college degree while graduating with less debt
14 and building lives in Pennsylvania. So as we say, a
15 win-win-win.

16 I applaud the Governor's vision, but I have a
17 question for you: How can Pennsylvania create a
18 competitive edge in funding higher education now that
19 New Jersey and other States in our region are offering free
20 tuition to their State institutions?

21 PRESIDENT STEELEY: So broadly speaking, one of
22 the things that we look at and are cognizant of is funding
23 per student and also debt per graduating student. And I
24 would probably look a little bit broader than just
25 New Jersey and New York on that statistic of debt per

1 graduating student.

2 Pennsylvania, unfortunately, ranks near the
3 bottom of the 50 States. I believe 49th out of 50. So
4 broadly speaking, you know, any proposal to increase
5 funding of higher education PHEAA would view as something
6 we would be generally supportive of.

7 I think one of the important things to look at is
8 whether or not the funding directly gets to the students,
9 because that's ultimately what you need to have a direct
10 correlation and positively impact the student outcomes and
11 making sure that they finish school with a sustainable
12 level of debt. That's one of the things that we really
13 like about the Pennsylvania State Grant Program, is there
14 is a clear correlation between debt per graduating senior
15 being about \$9,000 less for recipients of the Pennsylvania
16 State Grant Program than the overall average debt per
17 graduating senior in Pennsylvania as a whole.

18 So in terms of, you know, remaining competitive
19 with nearby States, and I would say for that matter
20 nationally, I think investing in programs that directly get
21 money to the students would be where I would view, you
22 know, being -- it's what I would view being the highest
23 priority.

24 REPRESENTATIVE COMITTA: Yeah. Well, I would
25 absolutely agree with you. And as you have said, being

1 almost at the, well, nearly one away from the bottom in
2 terms of debt at graduation, and what is it, 37,000 is like
3 the average?

4 PRESIDENT STEELEY: It's about 36,000, 37,000 is
5 the average per graduating senior. And then for recipients
6 of the Pennsylvania State Grant Program, which is the
7 hallmark program PHEAA administers, it's about 28,000.

8 So it's meaningfully, you know, it makes a
9 meaningful difference. The problem is that the
10 Pennsylvania State Grant Program begins to phase out once
11 families hit the middle-income levels.

12 REPRESENTATIVE COMITTA: Mm-hmm. Yeah.

13 So, well, I agree with you that we need to do
14 everything we can to help our students have low debt or no
15 debt when they graduate so they can focus on the task at
16 hand, which is essentially saving their world and not being
17 distracted by debt that really can just drag them down and
18 the communities down and, quite frankly, as I said, hobble
19 them in the work they need to do to shape a healthy future.

20 So thank you for everything that you are doing to
21 help our students.

22 PRESIDENT STEELEY: Thank you.

23 MAJORITY CHAIRMAN SAYLOR: Representative Owlett.

24 REPRESENTATIVE OWLETT: Thank you for joining us,
25 and thank you, Mr. Chairman.

1 And just to maybe touch on what my colleague
2 mentioned there about free college. I live next to
3 New York State. We talk to a lot of citizens up there and
4 friends up there. Nothing is free in society, so someone
5 is paying for everything. I haven't yet to find anything
6 that is completely free, but.

7 I don't want to talk about the policy of the
8 Nellie Bly tuition program, but I would like to talk about
9 the proposal as far as the administrative piece of it. Has
10 the Administration approached you at all about
11 administering this program?

12 PRESIDENT STEELEY: To date, we have only had
13 very high-level conversations with them, and that's really
14 just been in the last few weeks. But I don't believe those
15 conversations included the actual administration of it.

16 REPRESENTATIVE OWLETT: So not prior to the
17 Budget Address by the Governor?

18 PRESIDENT STEELEY: No.

19 REPRESENTATIVE OWLETT: Okay.

20 What kind of additional work would it be to
21 implement a \$200 million program, a tuition assistance
22 program, for I guess the start-up of it? Because they're
23 proposing it goes through PDE. What kind of costs would
24 that be to establish something like that?

25 PRESIDENT STEELEY: I'm going to defer to

1 Mr. Hench, who currently oversees the Pennsylvania State
2 Grant Program, which is probably the most similar program.

3 SENIOR VICE PRESIDENT HENCH: So, Representative,
4 roughly, the Pennsylvania State Grant Program and all the
5 boutique programs that we administer on behalf of the
6 Commonwealth costs PHEAA about \$13 million in
7 administrative costs.

8 I think probably with the Nellie Bly proposal,
9 and we haven't seen the written legislation, the more
10 strings that are attached to tracking the student
11 post-graduation, I believe there is a residency requirement
12 that would increase the burden of the program
13 administration, at least from a PHEAA experience with
14 similar programs that we have administered.

15 REPRESENTATIVE OWLETT: In your opinion, would it
16 make more sense to run this proposal through PHEAA if it
17 was to be passed into law?

18 SENIOR VICE PRESIDENT HENCH: It fits within the
19 PHEAA wheelhouse of what we have done. However, we always
20 look to the General Assembly and follow the policymakers'
21 lead on where programs should sit for administration.

22 REPRESENTATIVE OWLETT: I appreciate that, and I
23 appreciate your comments.

24 And to balance off what you said, it's to make
25 sure that as much money as possible, if something like this

1 was to come about, would actually make it to the students.
2 Creating a whole new avenue to push this money out seems a
3 little bit crazy, and since you are already doing it, that
4 might be a better avenue to look at.

5 Thank you.

6 MAJORITY CHAIRMAN SAYLOR: Representative Gainey.

7 REPRESENTATIVE GAINEY: Good afternoon. I just
8 got two questions.

9 I want to kick back on the Cheney Keystone
10 Academy and the Bond-Hill scholarship. I know with the
11 Cheney Keystone Academy it was definitely to try to boost
12 enrollment, enrollment there, get the best qualified
13 candidates to go to Cheney. I just want to get an update
14 on how that's going, and also on how the Bond-Hill
15 scholarship is going. Are they driving the mission that
16 they set out to do? Are we making any progress there?

17 VICE PRESIDENT McCLOUD: So speaking to both of
18 those programs, again, I probably should reiterate that
19 PHEAA does act as the disbursing agent on those programs,
20 not the owning administrator of the programs. But from
21 what we see in our interactions with the programs, they are
22 fulfilling the missions for which they have been created
23 and the funding is being utilized as it was intended, and
24 the appropriation has been fully utilized each year.

25 REPRESENTATIVE GAINEY: Have we seen an increase

1 in regards to our partnering universities, that the
2 students that are going to Cheney are actually enrolling
3 into the secondary schools such as I guess Pitt,
4 Penn State, and some other PASSHE schools? Do we have any
5 indication of what's going on there, or---

6 VICE PRESIDENT McCLOUD: So I think you are
7 referencing in the Bond-Hill program---

8 REPRESENTATIVE GAINEY: Right.

9 VICE PRESIDENT McCLOUD: ---the expansion of
10 eligible institutions that the graduates of Lincoln and
11 Cheney can attend and have funding assist with paying for
12 their graduate programs, and that was expanded, I believe,
13 in the 2016-17 academic year to include all of the PASSHE
14 institutions and a broader range of graduate programs that
15 students could attend and receive funding through the
16 Bond-Hill program. And we have been seeing requests for
17 disbursements go out to a broad variety of institutions
18 under that expanded definition of eligible schools in the
19 program.

20 REPRESENTATIVE GAINEY: So there has been some
21 growth in that program?

22 VICE PRESIDENT McCLOUD: Yes.

23 REPRESENTATIVE GAINEY: Thank you.

24 MAJORITY CHAIRMAN SAYLOR: Representative
25 Delozier.

1 REPRESENTATIVE DELOZIER: Thank you,
2 Mr. Chairman.

3 Thank you all for being here regarding many of
4 the different issues that you guys cover.

5 My questions lie in the fact of taking a look at
6 the grant programs, which we have talked about, and the
7 Governor has put out there asking for more of the earned
8 dollars from PHEAA to go into the grant programs, which I
9 think is a good step and we will be able to serve many more
10 students. And I know the numbers are going, the loan now
11 is estimated to be the highest, the cap at 4,123 and going
12 to 4700, which is 600 more dollars for those students to
13 use.

14 But moving from that group where there are grants
15 to students that are low income and then qualify, I would
16 say there's a very big significant amount in my particular
17 districts and many of our districts that don't necessarily
18 maybe qualify for grants but qualify possibly for the
19 Ready to Succeed, and I think that that is a big
20 underrepresented or talked-about group of folks trying to
21 put their kids through college. They don't make enough to
22 write the check, they don't make enough to qualify for
23 grants, but they do make possibly enough to deal with the
24 Ready to Succeed. We have an increase. Can you talk about
25 how many more students will be served by that increase?

1 VICE PRESIDENT McCLOUD: Thank you,
2 Representative Delozier. I would be happy to speak in a
3 little bit more detail about the Ready to Succeed
4 Scholarship Program.

5 As you are aware, this is a program that was
6 created in 2014 to assist middle-income students and
7 mitigate student loan indebtedness, and it has been a
8 successful program in providing awards to high achieving
9 students whose annual family income does not exceed
10 \$110,000.

11 Now, since the program was created, it was
12 initially receiving an annual appropriation of \$5 million
13 per year through '18-19. That was increased for this
14 current academic year to about 5 ½ million. But from the
15 beginning of the Ready to Succeed Scholarship Program, the
16 pool of eligible students who met the academic and the
17 family-income requirements has exceeded the available
18 funding.

19 And so PHEAA's Board did vote this fall to
20 request \$15 million in appropriation to the program for
21 2020-21 in the hopes of having sufficient funding to fully
22 fund every eligible student. And with the Governor's
23 recommended budget and the 14.55 million recommendation for
24 the Ready to Succeed Scholarship Program, we are
25 anticipating, based on current program demand, that that

1 would fund all of the eligible students.

2 REPRESENTATIVE DELOZIER: Okay.

3 VICE PRESIDENT McCLOUD: So in terms of the
4 headcount I think that you had asked about?

5 REPRESENTATIVE DELOZIER: Mm-hmm.

6 VICE PRESIDENT McCLOUD: For the current year,
7 for example, we have 3,550 recipients, but there is another
8 3,350 students who would be eligible but have been unfunded
9 due to the appropriation level at this time.

10 REPRESENTATIVE DELOZIER: Okay. Thank you very
11 much.

12 Because I think that, and you'll hear probably
13 that from more, is the debt that kids come out of school
14 with. And to go to my next question, that's one of the
15 issues that I know PHEAA has driven to try to attack again
16 for many, many years, over 10 I believe it is. They were
17 not in the loan business; they were in the servicing
18 business, and then they evolved back into the loan business
19 of looking at low-interest loans and trying to be
20 competitive, because we can be more competitive than
21 possibly some of the ones that were open for students to
22 have low-interest loans.

23 So my question is, how many students do you
24 think would be served by that particular program, or a
25 guesstimation, because I know it's still new, and also the

1 issues that also come into play. Because a lot of our
2 dollars that are earned by PHEAA go back into grant
3 programs, as we mentioned, and other programs that serve
4 our students, and we have had a lot of difficulty with the
5 Federal Government, and there are strings attached to a lot
6 of what they have been requesting of us.

7 So can you talk about the loan program, what it
8 would serve, as well as the difficulty that we have had in
9 navigating some of the Federal issues that we have in front
10 of us.

11 PRESIDENT STEELE: Thank you, Representative
12 Delozier.

13 Yes. One of the most exciting things that PHEAA
14 has done in a long time was to launch our own mission-based
15 loan program. And as Representative Delozier alluded,
16 PHEAA had not disbursed a loan in about a dozen years, and
17 if you think about it, that's one of the core reasons PHEAA
18 was initially created in the early 1960s, was to finance
19 education at affordable rates.

20 We did a study in 2017, and what we determined
21 in that study is that after all gift and grant aid, as well
22 as the Federal Stafford Loans are used, there's about
23 \$2 billion of unmet need each year in Pennsylvania to fund
24 education. So those were \$2 billion that students were
25 either borrowing through the Federal PLUS program, which

1 usually pulled their parents in, because the loans are
2 actually to the parents, and the PLUS loan rates are
3 typically north of 7 percent and come with a 4 ¼-percent
4 origination fee, or they were going to other private-sector
5 participants, which typically add in interest rates, you
6 know, somewhere approaching 9 percent. In fact, there is a
7 LendEDU study that cites the average rate of a private loan
8 around 9 percent.

9 So the unique thing with the PA Forward Student
10 Loan Program is it really does, and it's one of the things
11 that a State agency can do well, use tax-exempt funding and
12 pass that savings on to students.

13 REPRESENTATIVE DELOZIER: Okay. Thank you.

14 I see my time is up. Thank you very much.

15 MAJORITY CHAIRMAN SAYLOR: Representative
16 Sanchez.

17 REPRESENTATIVE SANCHEZ: Thank you, Mr. Chairman.

18 I'm right here, folks. Thank you for being here
19 this afternoon.

20 As I'm sure you're aware, Act 121 of 2018
21 requires colleges and universities to provide their
22 students with annual notifications of their borrowing and
23 information about how much it will cost to repay their
24 loans over time. It is my understanding that your agency,
25 PHEAA, worked with PDE to build a tool to help schools

1 comply with this requirement, and it went live last
2 December 2019.

3 Can you talk about how the tool works, how many
4 schools have been using the tool, and any observations
5 about the process so far?

6 PRESIDENT STEELE: So at a high level, I think
7 the legislation that this body passed to create this
8 requirement of an annual debt notification letter is an
9 excellent step at educating students about the student loan
10 process.

11 Being a large Federal servicer, one of the things
12 that we unfortunately happen across, and there's
13 independent studies out there that cite this, is a full
14 one-third of college freshmen that have Federal student
15 loans do not realize they have Federal student loans. So
16 think about that. A third of college freshmen with Federal
17 debt don't know they have Federal debt, and it's a
18 mechanism of how the loans are packaged together. They're
19 presented as gift and grant aid.

20 So I think the steps that Pennsylvania is taking
21 with passing this legislation, which will go into effect
22 this summer, is an excellent first step that will at least
23 provide an annual reminder to students that, yes, we have
24 an obligation, or that I have an obligation that I someday
25 need to repay.

1 And then as for, you know, success enrolling
2 schools, I'm going to defer to Mr. Hench. I know it's an
3 ongoing process. I think it goes live, or the requirements
4 this summer, I believe.

5 SENIOR VICE PRESIDENT HENCH: Yeah.

6 So the tool is live right now. We have about
7 30 schools that have signed up to use the PHEAA tool for
8 the debt letters, and the requirement is that schools have
9 to send out those first round of notifications by June or
10 July of this summer.

11 REPRESENTATIVE SANCHEZ: Excellent.

12 And has there been any discussion, even, you
13 know, maybe at the university or college level, sending the
14 letter of including other elements of, let's call it
15 financial hygiene, like not accumulating excessive credit
16 card debt, other, you know, forms of borrowing and stuff
17 within that information? Obviously, you know, it's going
18 to be a letter on topic of not accumulating too much debt,
19 so maybe it would be a good time to reach out about other
20 financial planning aspects.

21 SENIOR VICE PRESIDENT HENCH: Sure.

22 So we closely partner through our PA School
23 Services group with the higher education community about
24 financial literacy, and we're in conversations with them on
25 other tools and mechanisms that PHEAA already has existing

1 today that could help those student populations not to
2 over-borrow, whether it's through student loans or credit
3 cards.

4 REPRESENTATIVE SANCHEZ: Excellent. Thank you
5 very much for those efforts.

6 Thank you, Mr. Chairman.

7 MAJORITY CHAIRMAN SAYLOR: Representative
8 Heffley.

9 REPRESENTATIVE HEFFLEY: Thank you, Mr. Chairman.

10 The cost of higher education is something that
11 weighs on everybody's mind and how to control those costs.
12 Obviously as we put more funding into different programs,
13 then these dollars are, you know, are hard to come by.

14 Act 5 of 2018 fully integrated distance education
15 into the student grant program, and expanding that student
16 program included about 10,000 students taking more than
17 50 percent of their courses through distance education and
18 could reduce the average grant amount of all the students
19 in the program. To mitigate that impact, the PHEAA Board
20 of Directors could implement controls for the amount of
21 grants on students taking more than 50 percent of the
22 classes via distance education.

23 What restrictions, if any, have you applied to
24 students that are taking online courses?

25 VICE PRESIDENT McCLOUD: Thank you for that

1 question.

2 So as you mentioned, the integration of
3 eligibility for the State Grant Program for distance
4 education students was first in place for the 2018-19
5 academic year, and PHEAA's Board does have the latitude to
6 help control the amount of the State grant appropriation
7 that goes towards distance ed awards to students by
8 applying a reduced award for students who take more than
9 50 percent of their credits in online coursework. And that
10 was applied for the 2018-19 academic year, so that students
11 who were enrolled primarily in online coursework had awards
12 that were approximately half the value of the award they
13 would have received if they were in classroom for the bulk
14 of their credits.

15 For this current academic year, year two of
16 integration of distance education into the State Grant
17 Program, based on the activity and distance at enrollments
18 in 2018-19, for '19-20, the Board set that to about
19 75 percent of the in-classroom award value. So a student
20 enrolled more than 50 percent in online credits is
21 receiving an award equal to 75 percent of what it would
22 have been had they been in classroom.

23 REPRESENTATIVE HEFFLEY: I mean, I think online
24 learning, online education, the cost savings are
25 phenomenal, and when we look at the education, we have a

1 generation of students that have grown up learning online.
2 Kids that are in fourth grade can pick my phone up and do
3 more with it than I can figure out to do. It's scary, but
4 true. And if we shift to that model, now, if we're only
5 reimbursing right now at 75 percent, which is better than
6 50 percent, but as I know from my daughter when she went to
7 school, that you're paying for the course, but the
8 universities and the colleges still tack on all the fees.
9 I mean, I was paying a basketball-court fee for my daughter
10 who never stepped foot on campus, did all the learning
11 online. She got her diploma in less than 3 years after she
12 graduated, and it has been working ever since. This should
13 be the model -- dual enrollment programs; online learning
14 -- to really cut down the cost.

15 Sometimes I fear that if we're not -- we're
16 rewarding folks who are spending more money rather than
17 rewarding the folks that are being conscious about the cost
18 of education and looking to live at home, maybe have a
19 part-time or a full-time job and learn online rather than,
20 you know, spending all that time and borrowing money for
21 room and board, borrowing money to eat in the cafeteria,
22 that they're going to be paying back.

23 And I just would like to see more of an emphasis
24 put on online learning, because the generation that's
25 coming, they're going to be online learning the rest of

1 their life because technology is changing so fast and
2 education is changing so fast. So I would really like to
3 be ahead of that curve rather than behind it.

4 Thank you.

5 VICE PRESIDENT McCLOUD: You're welcome.

6 MAJORITY CHAIRMAN SAYLOR: Next is Representative
7 Krueger.

8 REPRESENTATIVE KRUEGER: Thank you, Mr. Chairman.

9 Thank you so much, folks, for joining us here
10 today.

11 I want to ask about the financial health of
12 PHEAA. Because PHEAA contributes millions of dollars of
13 its business earnings to student-aid programs, how you're
14 doing is really important to us, and we want you to be able
15 to continue to meet your mission.

16 I also know that there has been some challenges
17 recently, so I wanted to ask in particular, how would you
18 rate the agency's financial footing today?

19 PRESIDENT STEELEY: I would rate our financial
20 footing as very strong. We are no longer, or the agency
21 does not have generally issued debt. It's all tied to
22 securitizations and student loans, so the rating agencies
23 look at those assets. But up until a year ago when we had
24 general agency debt, we were actually, by the rating
25 agencies, investment grade and I believe a notch higher

1 than the Commonwealth as a whole.

2 REPRESENTATIVE KRUEGER: Well, there has been
3 some decisions made in this building that has affected the
4 Commonwealth's bond rating historically, so.

5 What's your projected net operating income for
6 '19-20, for this current year?

7 PRESIDENT STEELEY: So for '19-20, for the first
8 6 months of the year, we just published our financial
9 statements a week or two ago, and our operating income was
10 about 25 million.

11 You know, it's hard to, it's hard to say exactly.
12 Our forecast is showing less than doubling it, but I would
13 be inclined to think -- I'm a big believer you can
14 annualize things. But it's somewhere, last year we earned
15 around 40 million, so somewhere in the 40 to 50 range,
16 barring no unforeseen events.

17 REPRESENTATIVE KRUEGER: And looking at the chart
18 relative to operating income, it looks like your net
19 operating income has been on the decline for the past few
20 years. Can you explain why that has happened?

21 PRESIDENT STEELEY: Yes.

22 Really, our operating income has been on a
23 decline more or less -- there has been blips up, but more
24 or less since the financial crisis in 2008.

25 PHEAA really had two events, the financial crisis

1 in 2008, and then in 2009, as part of the Affordable Care
2 Act, the FFELP lending program, which PHEAA was a lender
3 under, ended and was replaced by Direct Loans.

4 So PHEAA did become a Direct Loan servicer, but
5 the margins in servicing in general, particularly servicing
6 for the Federal Government, are very thin compared to the
7 margins of actually being a lender. So it's really a shift
8 in the composition of the business that has led to that
9 decline in that operating income.

10 REPRESENTATIVE KRUEGER: And I know that PHEAA
11 has stated that you need to maintain certain reserves.
12 Can you tell us how much in restricted reserves you've got
13 right now and, in particular, what they're restricted
14 for?

15 PRESIDENT STEELEY: Restricted reserves, off the
16 top of my head, I would need to get back to you on the
17 exact number. But generally speaking, if you look at our
18 financial statements and you look at our net assets, we
19 have funds restricted, and predominantly they are
20 restricted for the bond issues that finance the outstanding
21 student loans. So typically, we collect cash when loan
22 payments are made. The cash then in turn pays the people
23 that finance the loans. So it sort of flows through PHEAA,
24 if you will, in terms of restricted cash, if that was your
25 question.

1 If your question is about overall reserve level,
2 what we try to do, which is our unrestricted cash, we try
3 to maintain about 6 months of operating cash on hand. One
4 way or another, the majority of our cash flow is tied to
5 the Federal Government. We got very, very lucky in the
6 last Federal shutdown a little over a year ago in that the
7 Department of Education was somehow funded when most of the
8 rest of the Federal Government was not. But we like to
9 maintain 6 months of cash flow on hand, which is about
10 9 basis points of servicing assets -- that approximates to
11 250 to 300 million -- in case of any business
12 interruptions.

13 REPRESENTATIVE KRUEGER: And how does that
14 compare to similar entities that serve other States?

15 PRESIDENT STEELEY: So, we have benchmarked
16 ourselves against other student loan servicers as well as
17 other State agencies. I recall us being somewhere in the
18 middle, but I don't -- that was about a year or so ago, so
19 I don't have that data off the top of my head. But that's
20 something we can certainly follow up with you on and get
21 you that data.

22 REPRESENTATIVE KRUEGER: So here's why I'm
23 asking: We know that Pennsylvania residents currently have
24 over \$68 billion in student debt, and we also know that
25 we're either the highest or second highest in the country,

1 depending on what numbers you are looking at. We need to
2 make sure that every dollar possible is deployed directly
3 to loans and grant programs to help students finance public
4 education.

5 This is an issue I hear about a lot in my
6 district office, parents calling who really are struggling
7 with helping their students go to school for higher
8 education or being stuck with debts that the students
9 signed on, or that they helped sign on for. So I would
10 urge you to allocate every dollar possible to helping
11 Pennsylvanians reduce their student debt load.

12 Thank you.

13 MAJORITY CHAIRMAN SAYLOR: Representative Gabler.

14 REPRESENTATIVE GABLER: Good afternoon, and
15 thanks for the opportunity to have a conversation today.

16 I wanted to ask for an update of where things
17 stand here in 2020 on something that has been in the news
18 over the last few years, the Public Service Loan
19 Forgiveness Program, PHEAA being the administrator of the
20 entity known as FedLoan Servicing. And there has been some
21 challenges that have been reported through the news as far
22 as individuals who have been having trouble meeting the
23 requirements of the program. And I know that it's a
24 Federal program that has a lot of very specific provisions
25 that has caused a lot of dissatisfaction among

1 participants.

2 But I know that even going back to 2017 when we
3 started getting into that post-tenure window where people
4 would be applying for the forgiveness, could you give us an
5 update as far as where we stand, have the statistics on
6 approvals improved, and what is PHEAA doing in order to
7 make sure that customer service is addressed and then kind
8 of put all the questions together? I know there have been
9 a few lawsuits as well. How has that impacted the finances
10 of PHEAA, and is there anything we should worry about
11 there?

12 PRESIDENT STEELEY: Thank you, Representative,
13 for your question.

14 Going back to, you mentioned 2017 as the first
15 year that folks could be approved under PSLF, and one of
16 the main reasons for that is the PSLF legislation was
17 enacted in 2007.

18 The interesting thing, though, is across, really,
19 we're on our third Presidential Administration at the
20 Federal level with the PSLF Program. The program existed
21 for a good 5, 6 years prior to the United States
22 Department of Education, at the end of 2012, beginning in
23 2013, engaging PHEAA to become the servicer of PSLF. So
24 the first 5 to 6 years of the program, there was no
25 publicly available information either by the Department of

1 Education or any loan servicers because there were no loan
2 servicers.

3 The other complicating factor that I think
4 distorts a lot of the statistics, when the program was
5 created in 2007, it was for Direct Loans. In 2007, Direct
6 Loans were a very, very small percentage of the total
7 student loans outstanding. It was only in 2009, as part of
8 the Affordable Care Act, which then went into effect in the
9 summer of 2010 with the elimination of the FFELP program,
10 that folks became, you know, basically the default was, you
11 took out a Federal Direct student loan.

12 So while people were potentially eligible in
13 2017, I think it's a very, very small number, because the
14 majority of students at that time were not in the Direct
15 Student Loan Program. So really, the 10-year clock
16 would've only started when they consolidated.

17 A couple---

18 REPRESENTATIVE GABLER: And if I could interject.

19 I know that in 2017, some of the early
20 sensational news reports that were out there were saying
21 that greater than 99 percent of applications were being
22 turned down. Is that because people were erroneously
23 submitting applications that were never in the program to
24 begin with? Is that a large -- I think I remember hearing
25 some of that at that time, right?

1 PRESIDENT STEELE: Yeah. The biggest reason for
2 denial is what I would characterize as "the folks aren't
3 qualified yet." By that, they might not have had a Direct
4 Loan which they made payments on for 10 years, because it
5 requires actually 120 individual monthly payments, so
6 10 years' worth of monthly payments. They might not have
7 worked in a public service job for 10 years. While you're
8 making those payments, you need to be employed by either a
9 State or local entity or a not-for-profit. So there's a
10 whole myriad of reasons.

11 The other big driver, I mentioned the conversion
12 of FFELP to Direct. The other big driver of some of the
13 denial rates is the income-based repayment plans, which is
14 basically, you know, standard repayment prior to 2009 and
15 really 2011 is when they came up with these alternative
16 repayment plans. Standard repayment is 10 years, so think
17 about it. Congress passed a law. You're under repayment
18 10 years. Oh, your loan is paid off, and you get it
19 forgiven.

20 So it was really in 2009 the first income-based
21 plan came out, and the most prevalent one that consumers
22 need to be in to benefit from PSLF really went into effect
23 in 2011. So really, you know, looking forward a year or
24 two, I think we'll see meaningful numbers approved in the
25 '20-21, '21-22 time frame, you know, and thereafter. But

1 really, you know, it wasn't until I would say PHEAA became
2 engaged at the end of 2012, the beginning of 2013, and
3 started to provide education, started to make sure people
4 were in the right repayment plans, that, you know, put that
5 as a starting point and measure 10 years thereafter and
6 judge us on those results.

7 REPRESENTATIVE GABLER: And I appreciate that
8 information.

9 Just to wrap up -- my time is almost up -- are
10 there any initiatives that you would like to share with us
11 as far as what PHEAA has done in response to some of the
12 new stories, whether it be fair or unfair, some of the
13 critiques of PHEAA's administration where the servicing or
14 the customer service of these programs, to make sure that
15 the customer service is where it needs to be?

16 PRESIDENT STEELEY: Mr. Chairman, may I answer
17 the---

18 REPRESENTATIVE GABLER: That clock is on me, not
19 you. So yeah, you're fine.

20 PRESIDENT STEELEY: Okay. I did not realize
21 that.

22 So we did a number of things. You know, first
23 and foremost, we became engaged as a sole servicer back,
24 and this predates my time at PHEAA, but from what I
25 understand is, we looked at Public Service Loan Forgiveness

1 as a true service to people, and we looked at things that
2 PHEAA already did, like the State Grant Program, and it
3 seemed to go hand in glove with what was already in PHEAA's
4 DNA.

5 Once we became engaged with the Department of
6 Education in 2012 and early 2013 with trying to implement
7 the program, we realized there were a lot of complications.
8 We have trouble, you know, at times. It's so complicated
9 as to what qualifies, what doesn't qualify. There is
10 unique rules that people can pay so many days before their
11 due date or so many days after their due date. So if they
12 pay too early, it might not count as a qualifying payment.
13 There are so many fine, I'll say nitty rules around
14 Public Service Loan Forgiveness that were either
15 established by Congress or set by the Department of
16 Education. We became aware very early on that this was
17 going to become a problem.

18 We, starting very early, started to socialize
19 various iterations of a white paper of action that either
20 needed to be taken by the Department of Education or the
21 United States Congress to fix some of these issues. It
22 really has not gotten traction. So we started, the first
23 iteration of that white paper came out in 2013. It really
24 took until you started having consumers have problems until
25 it started to get traction.

1 One of the things I'm very optimistic about is,
2 as part of our contract extension with the U.S. Department
3 of Education, which takes us out another 2 years, is we got
4 them to agree to a joint, I'll say task force or working
5 group with PHEEA to implement the ones that they are
6 administratively able to implement of these improvements,
7 things that will take care of some of the prepayment issues
8 I mentioned. And that group has been meeting either on a
9 weekly or biweekly basis since December, and we have, our
10 contract extension document has some firm commitments from
11 the Department to implement some of the recommended changes
12 over the course of the coming year.

13 So I'm optimistic both from the standpoint that,
14 you know, in a few years, we'll be 10 years from PHEEA's
15 initial involvement, as well as I look at some of the
16 simplification initiatives that we're working with the
17 Department of Education. I think that will help folks out,
18 too.

19 REPRESENTATIVE GABLER: Thank you.

20 And, Mr. Chairman, I apologize for asking a long
21 question. Thank you.

22 MAJORITY CHAIRMAN SAYLOR: Representative
23 Bullock.

24 REPRESENTATIVE BULLOCK: Thank you, Mr. Chairman.

25 Good afternoon. How are you all doing today?

1 PRESIDENT STEELEY: Good. Good afternoon.

2 REPRESENTATIVE BULLOCK: Great.

3 So I was going to ask a couple of questions about
4 the Public Service Loan Forgiveness Program and my
5 colleague took care of that for me. Thank you very much.

6 But I do want to follow up on my usual line of
7 questioning around your employee and workforce diversity.
8 If you could share with me where those numbers stand today
9 and how do they compare to your numbers in previous years,
10 and where have you been able to find areas for promotion
11 and where do we see diversity in upper levels of
12 management.

13 And then my second question is around your, I
14 believe you have some online tools that are available for
15 consumers. If you could talk about the success of those
16 online tools.

17 PRESIDENT STEELEY: Thank you, Representative,
18 for your question.

19 First, covering the topic of diversity. That is
20 something that we believe very strongly in promoting, and
21 we do really believe that that starts at the top of the
22 organization. If you look at the PHEAA Executive Team,
23 roughly, it's 2 of 10, so 20 percent are diverse in our
24 Executive Team. Moving down throughout the organization to
25 the general workforce, it's about 30 percent.

1 REPRESENTATIVE BULLOCK: Excuse me. I'm sorry.
2 When you say diversity in the Executive Team, are you
3 referring, are they woman, are they people of color, or
4 both?

5 PRESIDENT STEELE: Both, actually.

6 In terms of gender diversity, our Executive Team
7 is probably split more evenly. I have to stop and think
8 about it, but I would say that gender diversity is probably
9 closer to 50/50 at the senior levels. And then throughout
10 the whole organization, about 30 percent of the PHEAA
11 workforce is ethnically diverse, and in terms of gender
12 diversity, about 60 percent of our workforce is female.

13 We constantly look for ways, one of the things,
14 we look for ways to try to promote from within to try to
15 grow our individuals, and that's not just true of diverse
16 employees, that's true throughout the organization. We
17 have been very focused on employee engagement.

18 And I had a number of initiatives over the last
19 few years, such as the Leadership Academy, that we get a
20 group, it's about a group of 25, 30 individuals each year
21 of relatively new supervisors or they are new into a
22 management role and put them through -- and it's from areas
23 throughout the organization, so they get to network with
24 peers from throughout the entity. And we put them through
25 almost like a leadership boot camp over the course of the

1 year to try to grow them as individuals and them as
2 professionals. So we really are prioritizing and investing
3 in our employees and giving them the skills they need to
4 grow their careers and succeed.

5 In terms of your second question with online
6 tools, another part of our strategy has really been focused
7 on transformation efforts. We really -- and that's
8 transformation across our workforce, across operations,
9 trying to give our employees more skills, trying to think
10 about how we do processes and do them smarter or more
11 effectively, more efficiently.

12 And then when it comes to technology, we have had
13 some really good success, because at the end of the day,
14 the group of folks that we're serving are younger --
15 they're younger. They don't want to have to pick up the
16 phone and call us. In fact, they're probably pretty
17 unhappy if they have to pick up the phone and call us.

18 So about a year ago, we actually pulled our
19 mobile app in-house. We used to use a third-party to host
20 and deploy our mobile apps, both for FedLoan Servicing and
21 American Education Services, and we relaunched it,
22 internally homegrown, and we're up to about 4.7 or 4.8 out
23 of 5 in the Apple Store. Anyone here with iPhones can pull
24 up FedLoan Servicing or American Education Services. And
25 we're the highest rated app of all the student loan

1 servicers out there right now, and I think we're higher
2 than the U.S. Department of Education as well.

3 REPRESENTATIVE BULLOCK: Well, that's an
4 accomplishment, because I don't even take the time to rate
5 an app, so.

6 I thank you for that, and I think I would agree
7 that students and consumers are moving towards the
8 accessibility and to be able to have that information in
9 your phone or on a computer, so thank you for listening to
10 your consumers and providing the tools and resources they
11 need to be able to monitor their loans.

12 Thank you very much.

13 PRESIDENT STEELEY: Thank you, Representative.

14 MAJORITY CHAIRMAN SAYLOR: Representative
15 Struzzi.

16 REPRESENTATIVE STRUZZI: Thank you, Mr. Chairman.

17 Good afternoon.

18 I would like to talk to you a little bit about
19 the PA Targeted Industry Program that provides scholarships
20 to students in programs of study that are 2 years or less,
21 basically your trade industries, manufacturing, energy,
22 agriculture, a lot of the gaps we have right now in our
23 workforce needs.

24 Now, last year, it was funded through the general
25 budget for 6.3 million. Can you give us an update on that

1 program and how it's doing?

2 VICE PRESIDENT McCLOUD: Yes. Thank you,
3 Representative, for that question.

4 So the PA-TIP program has been very successful
5 since it was created, and as you mentioned, it was funded
6 by PHEAA up until this current appropriation cycle, '19-20,
7 and the 6.3 million appropriation has been fully utilized
8 for this current year.

9 We have continued to fund short-term programs of
10 study, students enrolled in those programs that are
11 anywhere from 10 weeks up to just shy of 2 years in length,
12 and these are students who show need for need-based
13 assistance. They have an Expected Family Contribution up
14 to 12,000. We continue to fund programs in the areas of
15 energy, advanced materials and diversified manufacturing,
16 and agriculture and food production.

17 And just here for the 2019-20 academic year,
18 PHEAA's Board approved the addition of a select group of
19 health programs of study. That is new for this current
20 year based on conversations that we had had with Labor and
21 Industry and with the schools that participate in the
22 Targeted Industry Program, and there was a consensus that
23 health programs of study were an area of demand throughout
24 the Commonwealth, and that has been a very successful
25 addition to the program.

1 REPRESENTATIVE STRUZZI: Well, thank you. So
2 that gets to kind of my dilemma and my frustration.

3 This program is very successful, yet in the
4 testimony, it is \$2 million short of the demand. So we
5 know, and I hear it from the people in my community all the
6 time, you know, we have jobs, good-paying jobs we could
7 fill right now but we can't find skilled people to do it.
8 We have a program we know with a success rate of 89 percent
9 job placement when they graduate, and yet, the Governor
10 proposes to fund it at 6.6 million in this upcoming budget,
11 only a 5-percent increase, \$2 million short of what's in
12 the testimony of what we need to fill these job gaps.

13 So, I mean, that's frustrating to me. When we
14 know we have the ability to fill good-paying jobs right
15 now, and we're talking about \$200 million for other grant
16 programs and scholarships, we can't find \$2 million to fill
17 good-paying jobs right now? Can you speak to that?

18 VICE PRESIDENT McCLOUD: So you're correct that
19 we are estimating that for the current year, we would need
20 about 8.6 million to totally fund eligible students in the
21 current programs of study. And this is a program that is
22 really helping a specific set of students in the
23 Commonwealth. It differs from those who are assisted
24 through the State Grant Program.

25 So, you know, our average recipient is a

1 27-year-old with a household income of about \$23,000, and
2 this is a program that is giving those students enrolling
3 in these short-term programs of study a step up, where
4 75 percent of the recipients end up graduating from these
5 programs, 89 percent in our most recent annual report end
6 up employed after completion of the programs. And so it's
7 definitely an area that has -- it's a program that has been
8 successful. It's an area where there's room to grow.

9 REPRESENTATIVE STRUZZI: Well, thank you for
10 that.

11 To me, this is exactly what we need to fill our
12 workforce gaps, and I think if we can find a way to do all
13 these other things, we can find a way to fund a program
14 that directly creates family-sustaining jobs in
15 Pennsylvania. So thank you.

16 MAJORITY CHAIRMAN SAYLOR: Representative Kim.

17 REPRESENTATIVE KIM: Up here. Good afternoon.

18 I'm not sure if it was you or Mr. Preston who
19 told me that the turnover rate at PHEAA was like a hundred
20 percent in the first 16 months of an employee's lifecycle.
21 Was that you or was that Mr. Preston? Do you remember?

22 PRESIDENT STEELEY: I cannot recall, but---

23 REPRESENTATIVE KIM: Okay.

24 PRESIDENT STEELEY: I wouldn't say it's quite
25 that high.

1 REPRESENTATIVE KIM: Okay. It was shocking. I
2 remember it was shocking, and I wanted to just talk about
3 efficiency. Where are you guys in terms of turnover when
4 it comes to your employees? You have 3300 employees. Is
5 that right?

6 PRESIDENT STEELEY: Actually, we have
7 significantly less than that. We have about, give or take,
8 2700 employees.

9 REPRESENTATIVE KIM: Okay. I used to see PHEAA
10 job openings all the time. I don't see that anymore. And
11 then I'm hearing about the app. Have you not filled these
12 positions for efficiency purposes, or where are you guys in
13 terms of complement?

14 PRESIDENT STEELEY: So actually, we still are
15 actively hiring.

16 REPRESENTATIVE KIM: Okay.

17 PRESIDENT STEELEY: If you know anyone that's
18 interested in a Call Center job, we have any number of
19 positions available.

20 But, you know, more broadly speaking, we are
21 trying to serve the customer base more through technology.

22 REPRESENTATIVE KIM: Okay.

23 PRESIDENT STEELEY: I mean, at the end of the
24 day, that's where, that's where people that just finished
25 college want us to meet them. They don't want us to talk

1 to them on the phone.

2 REPRESENTATIVE KIM: Right.

3 PRESIDENT STEELE: They want to, you know, do
4 everything on their iPhone. So, you know, consciously, as
5 positions become available, we are being very judicious
6 about whether or not we fill them.

7 In terms of the turnover rate overall, I know in
8 terms of our -- we do have a classification of employees
9 that, by nature under our union agreement, it's defined as
10 a "wage employee." It's temporary by definition. The
11 turnover rate in that population is relatively high.

12 When it comes to our actual, like, long-term
13 tenured employees, what I'll say the union workforce, our
14 turnover rate also was a lot higher than we would have
15 liked, a lot higher than we would have liked, though, being
16 about 25 percent. One of the things we have really been
17 focused on is trying to drive that level down, because what
18 we really want to do is, to the extent that our customers
19 do need to get on the phone with them, we want to make sure
20 that they're talking to knowledgeable and skilled
21 employees, and to do that, we need to retain them. That's
22 one of the reasons we're focused on employee engagement,
23 one of the reasons we're trying to tie everything and
24 everyone's job back to our public service mission, so that
25 employees understand that no matter what you do, you are

1 connected to our public service mission and to giving back
2 to the people of Pennsylvania.

3 And in doing some of these engagement efforts
4 just over the last 2 years, we have driven down our union
5 workforce turnover rate from 25 percent to just below
6 20 percent, so we're trending in the right direction. We
7 still obviously have 20 percent, still a little higher than
8 I would like. We still obviously have a little ways to go.

9 REPRESENTATIVE KIM: Okay.

10 And my other question would be the default or
11 delinquency rate. Where are you now, and how does that
12 compare to the last years, couple of years?

13 PRESIDENT STEELEY: So one of the brightest, and
14 I guess I'll answer the question with respect to the
15 portfolio of loans that we service for the Federal
16 Government, because those are the more recently originated
17 loans.

18 I believe right now, we are hovering right around
19 80 percent to 81 percent in current repayment, which is
20 defined as being within 6 days of their payment date, so a
21 little bit more stringent definition than typically is used
22 in financial services. And the area that we have really
23 made the most progress in over the last 2 years or so,
24 about 2 years ago, that number was closer to 70 percent.
25 So we have really been focused on trying to do as much

1 outreach as possible to try to lift folks out of
2 delinquency, get them in an income-based repayment plan,
3 and get them on track.

4 And, you know, the other thing is using, I
5 mentioned the app and using technology. We have also
6 started to use texting campaigns, some of which is very
7 effective. We literally, to the extent that we run a
8 texting campaign of people that are relatively current.
9 They just happened to have missed their payment date, and
10 we'll text them. So these are people that are current,
11 they just might have forgotten to make a payment. We
12 literally get a third of those folks that we text to log
13 in. They log in and make a payment, whether on the mobile
14 app or our website, within the next week. So that's a
15 pretty -- you know, it's remarkable. When you're reaching
16 out to people, instead of sending a letter to them, when
17 you text them, they respond. So we have been trying to be
18 a little bit more innovative to try to improve customer
19 outcomes.

20 REPRESENTATIVE KIM: Thank you for that
21 information.

22 Thank you, Mr. Chairman.

23 MAJORITY CHAIRMAN SAYLOR: Representative Dunbar.

24 REPRESENTATIVE DUNBAR: Thank you, Mr. Chairman.

25 I just wanted to touch -- I'm right here in front

1 of you.

2 PRESIDENT STEELEY: Oh; sorry.

3 REPRESENTATIVE DUNBAR: That's okay.

4 PRESIDENT STEELEY: I'm used to looking to the
5 right and left.

6 REPRESENTATIVE DUNBAR: Not a problem.

7 I just wanted to touch base on the Governor's
8 budget proposal and specifically with the State Grant
9 Program.

10 I know last year, PHEAA funded \$30 million in
11 addition to what we supplied in the General Fund, and also,
12 the Governor has also requested that you do a similar
13 augmentation in '20-21. I didn't notice it in your budget
14 request that that funding was going to be coming through.
15 Can you tell me, do you think you'll be able to meet the
16 Governor's request for the \$30 million?

17 PRESIDENT STEELEY: So ultimately it's the
18 decision of the PHEAA Board of Directors. The PHEAA Board
19 of Directors has to vote to take action. But when we --
20 you know, we have been actively engaged with the Governor's
21 Office on our budget requests.

22 When PHEAA submitted its budget request back in
23 the fall, it was right after we finished up our annual
24 audit. We were at June 30th year end. We finished the
25 audit in September. The prior year -- the year ended

1 6/30 of 2019 -- PHEAA earned about 40 million. So in
2 essence, the 30 million that the Governor is proposing is
3 about 75 percent of what our earnings were in the prior
4 year.

5 There have been times in the past, and to a
6 question I got earlier about looking at reserves, there
7 have been times in the past that PHEAA has gone well above
8 and beyond what it has earned in any fiscal year. For
9 instance, in the last five budget cycles, PHEAA, in cash
10 outlays, and this is after absorbing the costs of running
11 the programs, in direct cash outlays has contributed
12 \$460 million to the various grant programs we administer.
13 That was going probably more than twice what PHEAA earned,
14 but at that time, we had reserve levels that could support
15 it.

16 So we're always evaluating reserves. We're, you
17 know, after a few years and about four budget cycles of
18 contributing significantly more to the grant programs than
19 we earned, we're now trying to get back to---

20 REPRESENTATIVE DUNBAR: And I do know that in
21 years past, I remember it being \$70 million and 120 million
22 in various. I'm just curious as to, when do you expect
23 that decision to be made?

24 PRESIDENT STEELEY: Most likely the April or May
25 board meeting, and it's, again, contingent on our continued

1 financial performance.

2 REPRESENTATIVE DUNBAR: And I understand. I had
3 heard your earlier comments about your reserves and how it
4 can affect that. I'm just trying to figure out exactly
5 where we're at as far as the budget and the budget requests
6 that are out there.

7 So it is your anticipation that that will happen
8 then?

9 PRESIDENT STEELEY: It's my anticipation, but
10 again, it's subject to the folks that I work for, which is
11 the PHEAA Board of Directors.

12 REPRESENTATIVE DUNBAR: And I don't know anybody
13 on that board.

14 Thank you.

15 MAJORITY CHAIRMAN SAYLOR: Next is Representative
16 Kinsey.

17 REPRESENTATIVE KINSEY: Thank you, Mr. Chairman.
18 Good afternoon, folks.

19 Mr. Steeley, I want to talk a little bit about
20 the portfolio that you service just so I can -- help me
21 with the background.

22 Does interest on student loans begin after the
23 first year of student graduation or is it the first year
24 that they actually receive the loan?

25 PRESIDENT STEELEY: It ultimately depends on the

1 type of loan.

2 REPRESENTATIVE KINSEY: Okay.

3 PRESIDENT STEELEY: So, for instance, there is
4 one type of loan, Stafford, which that's the type of loan
5 we encourage everyone to use, their Stafford loan, you
6 know, before they seek any additional loans.

7 REPRESENTATIVE KINSEY: Right.

8 PRESIDENT STEELEY: In Stafford, there's two
9 types. There's a subsidized, in which case the Federal
10 Government in essence is subsidizing the interest.

11 REPRESENTATIVE KINSEY: Okay.

12 PRESIDENT STEELEY: So the student is not getting
13 charged interest until they graduate. And then there is
14 unsubsidized, which they are getting charged interest and
15 it compounds.

16 Generally, all other types of loans, the interest
17 begins to accrue the moment the loan is disbursed.

18 REPRESENTATIVE KINSEY: My next question is, do
19 you have similar, I guess, data that shows the percentage
20 of student loans for recent grads versus non-recent grads?
21 And I'm saying recent grads, so probably like within a year
22 of graduation.

23 PRESIDENT STEELEY: That we service?

24 REPRESENTATIVE KINSEY: Yes, that you service.

25 PRESIDENT STEELEY: So, we can get information on

1 the servicing portfolio, the Federal portfolio we service.
2 But ballpark, the last several years of every new Federal
3 loan originated, you know, PHEAA has been getting a couple
4 percentage allocation of that.

5 There's actually nine student loan servicers
6 across the country. The most recent period, we were
7 getting 10 percent on new loans originated by the Federal
8 Government. So it's split up among nine different
9 enterprises.

10 REPRESENTATIVE KINSEY: Great.

11 PRESIDENT STEELEY: Mostly not-for-profits and
12 State agencies.

13 REPRESENTATIVE KINSEY: Okay.

14 I know a little bit earlier, one of my colleagues
15 talked about Act 121 that requires colleges and
16 universities to provide students with annual notifications,
17 you know, and so forth in regards to their borrowing and
18 information on how much it would cost to repay back the
19 loan over a period of time.

20 I know that when we look at data, we find out
21 that there is a lot of adult learners who are also going
22 back to school, and we also recognize there are some
23 adult learners who, unfortunately, for whatever reason,
24 through life experience, had not had the ability to pay
25 back student loans initially within a particular time

1 frame.

2 So even though Act 121 is really geared towards
3 recent graduates -- well, I'm assuming it's recent
4 graduates. Is that correct or not correct?

5 PRESIDENT STEELE: I believe it's active
6 students.

7 SENIOR VICE PRESIDENT HENCH: Yeah, in school.
8 In-school students.

9 REPRESENTATIVE KINSEY: Students who are in
10 school. So for students who graduate, graduate students,
11 students who are out of school, that act does not apply?

12 SENIOR VICE PRESIDENT HENCH: Yeah. So the
13 intent of the legislation is for in-school students
14 currently enrolled, so while they're progressing through
15 freshman to their senior year that they would understand
16 how much debt that they have---

17 REPRESENTATIVE KINSEY: Okay.

18 SENIOR VICE PRESIDENT HENCH: ---or that they're
19 accumulating.

20 Once the student graduates, then they would go
21 through exit counseling and they would see an aggregate
22 amount, and the school would then help to move them through
23 towards a repayment plan that makes sense for them.

24 REPRESENTATIVE KINSEY: So what are we doing for
25 adult learners who, and again, you know, life experience

1 and so forth on. But, you know, aside from maybe the phone
2 calls, or I heard you talk about the app as well, like, is
3 there some way of educating folks in regards to outstanding
4 loans that might be out there and informing folks that,
5 you know, this loan compounding interest and so forth on is
6 now, even though they may have a loan of let's just say
7 \$30,000, but with compound interest and so forth on it
8 really projects up to like 50,000 and so forth on. Are we
9 educating folks, adult learners, about that?

10 PRESIDENT STEELEY: So we have any number of
11 public outreach efforts that we do both here in
12 Pennsylvania and then, because of the servicing business,
13 nationally. One of them is Web-based, and it's a site,
14 "YouCanDealWithIt.com" or ".org," and basically it is aimed
15 at giving helpful tips about managing your student loan
16 debt and repaying your obligations.

17 And then in terms of outreach activity that we do
18 in Pennsylvania, I know, you know, most of what we do at
19 PHEAA is very focused on your traditional student.

20 REPRESENTATIVE KINSEY: True.

21 PRESIDENT STEELEY: You know, we spend a lot of
22 time with high school guidance counselors, a lot of time
23 with the financial aid officers to try to get the, make
24 sure that the current students get all the gift and grant
25 aid they can possibly qualify for.

1 We have, you know, recently started to think
2 about ways we can engage with nontraditional populations,
3 because as you pointed out, increasingly you have
4 nontraditional students going back to school. So we
5 recently, for instance, started to interact and provide
6 information to the Pennsylvania Library Association to get,
7 you know, information out to all the libraries in the
8 Commonwealth as an avenue. You know, parents might be
9 bringing their kids to a library program---

10 REPRESENTATIVE KINSEY: Right.

11 PRESIDENT STEELEY: ---and they might see
12 information on managing their debt there.

13 REPRESENTATIVE KINSEY: All right.

14 My time is up. I just want to go on record to
15 say that I want to thank Mr. Hench for reaching out. We
16 have had a private conversation, and I'm hoping that we can
17 continue that so we can reach out to more adult learners.
18 But thank you very much.

19 MAJORITY CHAIRMAN SAYLOR: For our final
20 comments, Representative Peifer.

21 REPRESENTATIVE PEIFER: Thank you, Chairman.

22 And I just want to thank you and Chairman
23 Bradford for giving PHEAA the opportunity to be here today
24 and have this open discussion.

25 I currently sit at the Chair of the PHEAA Board.

1 I'm sitting next to Representative Dunbar, and he said,
2 just who is on the Board. The Board is made up of
3 20 people, four Representatives from each Caucus, so that's
4 16 board members, and there are four at-large. So that is
5 the composition of the Board. We are very grateful to the
6 Board for some of the decisions they make. I'm very happy
7 with our Board. We work very hard.

8 We have a wonderful mission, and our mission is
9 ultimately helping the families and students of this
10 Commonwealth. So when you have a mission like that, you
11 know, nothing but good can happen.

12 And I can tell you that the Board Members, we
13 have great discussions, you know, at our meetings in trying
14 to provide the service and basically the product that our
15 students need.

16 I did talk to Representative Brown a little bit
17 about financial literacy. I know she had a great bill that
18 would talk to the importance of families and students
19 understanding exactly what they can afford, and that's
20 probably another subject for another day.

21 But I just wanted to point out -- it has been a
22 long day. I did want to point out, and Representative
23 Dunbar pointed this out a little bit, but over the last
24 10 years, PHEAA has donated \$1 billion to the Student Grant
25 Program itself. So it's not consistently the same number.

1 Ten years ago, I remember Chairman Adolph was, you know,
2 trying to help the budget process. I think we're a much
3 better process today. Our Budget Secretary is very helpful
4 to us in what we do, so we're very grateful to her.

5 But it's important to know that, you know, PHEAA
6 has always tried to do our best to help the families and
7 students, and we're very proud of that \$1 billion over a
8 10-year period.

9 So, Mr. Chairman, thank you.

10 MAJORITY CHAIRMAN SAYLOR: Representative
11 Bradford.

12 MINORITY CHAIRMAN BRADFORD: Thank you, Chairman.

13 I had the privilege also of sitting on the PHEAA
14 Board for several years, and I was very glad that, when
15 Chairman Adolph left us, I know Mike has provided really
16 excellent leadership. We're all lucky to have the
17 tremendous work PHEAA does. And we all recognize it's not
18 an easy job right now, and we thank you for the work you do
19 for Pennsylvania students. So thank you, Mike.

20 MAJORITY CHAIRMAN SAYLOR: Very good.

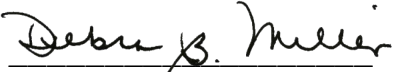
21 All three of you, thank you so much for your work
22 and dedication to our students here in Pennsylvania, and
23 with that, we will adjourn until 10 a.m. tomorrow morning
24 when we will have Chancellor Greenstein here from the
25 State System of Higher Education.

1 With that, this meeting is adjourned.

2

3 (At 4:06 p.m., the budget hearing adjourned.)

1 I hereby certify that the foregoing proceedings
2 are a true and accurate transcription produced from audio
3 on the said proceedings and that this is a correct
4 transcript of the same.

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6
7 

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