



South Carolina Commission on Higher Education

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Mr. Jeffrey M. Schilz
Interim President and Executive Director

September 7, 2017

MEMORANDUM

TO: Chairman Tim M. Hofferth and Members, SC Commission on Higher Education

FROM: Chair Paul O. Batson, III and Members, Committee on Access & Equity and Student Services

Consideration of SC Student Loan Corporation FY2017-2018 Administrative Budget Request SC Teachers Loan Program

Background

The General Assembly established the South Carolina State Education Assistance Authority in 1971, authorizing this entity to provide financial assistance to students through insuring and guaranteeing student loans to South Carolina residents. The Authority is a public instrumentality of the State of South Carolina and is governed by its members, who are by state statute, members of the State Fiscal Accountability Authority.

In providing such financial assistance, the Authority has acted through its contractual agent, the South Carolina Student Loan Corporation, a private, non-profit corporation headed by its own Board of Directors. In 1973, the Corporation was incorporated for the purpose of acting as the agent of the Authority in performing the functions of making, handling, servicing and providing information about student loans.

In June 1984, the General Assembly designated the Student Loan Corporation as administrator of the South Carolina Teachers Loan Program, a program established by the Education Improvement Act (EIA) of 1984 to assist students who wished to become certified teachers in the state in geographic or subject areas of critical need. These loans, first offered to qualified students in 1985, may be canceled at a rate of 20 percent per year for each full year of teaching in a critical area in South Carolina.

The General Assembly authorized the Commission on Higher Education (CHE) to establish regulations to govern the SC Teachers Loan Program. The regulations charge the Commission with two primary responsibilities: 1) approval of the Corporation's annual operating budget associated with

administering the SC Teachers Loan Program; and 2) approval of the appropriation request for loans distributed through the SC Teachers Loan Program.

SC Student Loan Corporation Change to a Third Party Servicer

Under the Federal Family Education Loans Program, SC students could previously apply for federally backed loans (Stafford loans and PLUS loans) directly through the Corporation, which is the state's contractual agent. In addition to federal student loan services, the General Assembly authorized the Corporation to administer the SC Teachers Loan Program. Since 1984, the Corporation leveraged their resources and automated systems, when possible, to help keep the SC Teachers Loan Program's overall administrative costs at moderate levels. However, with the passage of the Health Care and Education Reconciliation Act in 2010, the Federal Direct Student Loan (FDSL) program managed by the U.S. Department of Education, became the sole government-backed loan program in the United States. Guaranteed loans - which were loans originated and funded by private lenders but guaranteed by the government - were eliminated.

Prior to the passage of the Health Care and Education Reconciliation Act, the loan portfolio under the Federal Family Education Loans Program managed by the Corporation totaled over \$4 billion. Following passage of the Act, new federal loans are now offered to students through FDSL under the U.S. Department of Education. Similar to other contracting agents, the Corporation lost all authority to originate new federal loans. The Corporation informed the Committee on Access & Equity and Student Services that they will no longer have a large loan portfolio serviced on their systems. Due to the significant decrease in outstanding loan portfolio balances, the Corporation received approval from its Board to outsource the servicing of all loans to a third party servicer. The impact of this change will also affect the SC Teachers Loan Program. In order to maintain a proper level of servicing for loans within the SC Teachers Loan Program, the Corporation received approval from the Committee on Access & Equity and Student Services on March 9, 2017 and subsequently, CHE on April 6, 2017 to pursue outsourcing for student loan services (monthly servicing, delinquent loans, borrower statements and tax forms, conversion of current loans) for the SC Teachers Loan Program using the same third party servicer. As proposed, this servicer will handle the servicing of student loans to include SC Teachers Loans.

Proposed Administrative Budget for FY2017-18 and Explanation

The following table presents information regarding the previous FY2016-17 approved SC Teachers Loan Program budget request and actual expenditures for FY2016-17. The table also displays the Corporation's **proposed FY2017-18 Administrative Operating Budget** for the SC Teachers Loan Program and the difference (budget request and dollar amounts) between the approved budget for FY2016-17 and the proposed budget request for FY2017-18. Again, due to the changes in the Federal Family Education Loans Program, the Corporation no longer services loans. This change will significantly increase SC Teachers Loan Program administrative costs. At its meeting on May 5, 2017, the Student Loan Corporation Board of Directors approved the FY2017-18 proposed administrative budget request for the SC Teachers Loan Program. **(Attachment I)**

SC Teachers Loan Program Proposed Administrative Operating Budget

	FY2016-17 Approved Budget	Actual FY2016-17	FY2017-18 Proposed Operating Budget	Increase/ Decrease vs. FY2016/17 Approved Budget (%)	Increase/ Decrease vs. FY2016/17 Approved Budget (\$)
Personnel Expenses					
Salaries/fringes					
Social Security	\$162,300	\$162,300	\$140,500	-13.43%	-\$21,800
Group Insurance	12,400	12,400	10,700	-13.71%	-1,700
Retirement	20,600	20,600	18,950	-8.00%	-1,650
Unemployment	38,400	38,400	24,650	-16.77%	-13,750
	600	600	200	-66.6%	-400
Total	\$234,300	\$234,300	\$195,000		-\$39,100
Contractual Expenses					
Information Technology	\$31,000	\$31,000	\$98,500	217.74%	+\$67,500
Third Party Servicing Fees	-	-	215,000		+215,000
Accounting	4,400	4,400	3,600	-18.18%	-800
Total	\$35,400	\$35,400	\$317,100		+\$281,700
General Operating					
Rent	8,760	8,760	6,420	-26.2%	-\$2,340
Telephone	6,200	6,200	9,900	+59.67%	+3,700
Printing	3,750	3,750	800	-78.66%	-2,950
Postage	27,300	27,300	6,200	-77.28%	-21,100
Supplies	2,250	2,250	1,400	-37.7%	-850
Equipment lease/ maintenance	5,800	5,800	3,600	-37.93%	-2,200
Insurance – General	2,700	2,700	0	-100%	-2,700
	\$56,760	\$56,760	\$28,320		-\$28,440
Total	\$326,460	\$326,460	\$540,420		\$213,960
One Time Servicing Conversion FY2017-18			\$180,000		\$180,000
TOTAL	\$326,460	\$326,460	\$720,420		\$393,960

The first two columns in the table display the budget approved by CHE for FY2016-17 and actual expenditures for FY2016-17 (\$326,460). The third column shows the proposed operating budget for FY2017-18 in the amount of \$720,420, which is \$393,960 more than the amount budgeted for FY2016-17. The fourth and fifth columns show the difference (percentage and dollars) between the previous year’s budget approved by CHE and the Corporation’s FY2017-18 budget request. In addition to the FY2017-18 total costs in the amount of \$540,420 for Personnel, Contractual and General Operating expenses, the third party servicer has estimated a one-time conversion fee in the amount of \$180,000-\$195,000. According to the Corporation, this will not be a recurring charge. **(Attachment II)**

Under the category of Personnel Expenses (share of staff salaries, Social Security, group insurance, retirement and unemployment), the FY2017-18 budget request is \$195,000. Overall, a portion of existing Corporation’s staff time and effort will be assigned to maintain services for the SC Teachers

Loan program. The Corporation does not propose full-time FTE positions exclusively assigned to service the SC Teachers Loan Program but rather, as a part of assigned time and effort, five employees in the Corporation's Loan Administration area will perform originations, certifications and loan forgiveness services and four employees in Financial Services will perform processing and accounting services for the SC Teachers Loan Program. Three staff members in Information Technology at the Corporation will perform network and mid-frame computer operations. Lastly, the Corporation will assign one staff member, in addition to other assigned duties, the responsibility for mailing and printing documents, brochures and materials for SC Teachers Loans. **(Attachment III)**

Under Personnel Expenses, the requested funds reflect a decrease from the previous year's request in this budget category. Staff salaries in the amount of \$140,500 (-13.43%), Social Security benefits in the amount of \$10,700 (-13.71%), group insurance in the amount of \$18,950 (-8.0%), retirement in the amount of \$24,650 (-16.77%) and unemployment in the amount of \$200 (-66.6%).

The proposed FY2016-17 budget request for Contractual Expenses reflects a substantial increase from the FY2016-17 budget. Although accounting services are expected to decrease slightly from \$4,400 to \$3,600 (-18.18%), the proposed FY2017-18 budget for information technology services is \$98,500 (217.74% increase) due to a reduction of revenue from servicing fees. This revenue allowed for cost sharing/savings across all loan programs including the SC Teachers Loan Program. The Corporation explained that it no longer receives servicing fee revenues from student loans.

Due to the anticipated change to a third party servicer, the Corporation estimates that \$215,000 under the Third Party Servicing Fees budget line item will include monthly servicing, delinquent loan, transfer, and conversion fees. Also included under Third Party Servicing Fees is a one-time set up fee estimated to be between \$180,000-\$195,000. (See **Attachment IV** - Private Party Servicing Fees and Optional Services)

The Corporation's FY2017-18 budget request for General Operating Expenses is \$28,320 (-50.10% decrease). This year's budget request shows a decrease in rental costs (\$6,420), printing costs (\$800), supplies (\$1,400) and equipment lease/maintenance expenses (\$3,600). Postage costs will decrease to \$6,200 (-77.28%) and there will be no insurance (general) costs. Telephone costs will increase from \$6,200 to \$9,900 (+59.67%).

Overall, the Corporation's FY2017-18 budget as proposed, has decreased total costs under Personnel and General Operating Expenses for the SC Teachers Loan Program, although an increase is proposed under one budget line item - telephone. However, the proposed FY2017-18 budget shows substantial increases in Contractual Expenses in two budget line items due to the proposed change to a third party servicer: 1) Information Technology (\$98,000); and 2) Third Party Servicing Fees (\$215,000). The proposed total operating expenses for FY2017-18 is \$540,420. In addition to the total operating costs, it is important to note that the budget includes a one-time conversion cost in the amount of \$180,000-\$195,000 for the transfer of loans to the third party servicer. The Corporation's proposed FY2017-18 total budget request for the South Carolina Teachers Loan Program, including the third party servicer's one-time conversion fee, is \$720,420.

Recommendation:

The Committee on Access & Equity and Student Services commends favorably to the Commission approval of the SC Student Loan Corporation's FY2017-18 proposed budget in the amount of \$720,420, which includes a one-time conversion fee in the amount of \$180,000 for administration of the SC Teachers Loan Program. The Committee on Access & Equity and Student Services also recommends that the SC Student Loan Corporation explore alternatives that could lower information technology and servicing costs.

Loan Originations
P.O. Box 102405
Columbia, SC 29224



Repayment Services
P.O. Box 102423
Columbia, SC 29224

8906 Two Notch Rd. • Columbia, SC 29223
www.scstudentloan.org • 800-347-2752 • 803-798-0916

Mr. Paul O. Batson
Chair, Committee on Access & Equity and Student Services
South Carolina Commission on Higher Education
1122 Lady Street, Suite 300
Columbia, SC 29201

Dear Mr. Batson:

I want to thank you for working with our staff at SC Student Loan in regard to considering the annual budget for administering the SC Teachers Loan Program budget. I also want to confirm for you that our Board of Directors reviewed and approved the proposed budget for this program at our quarterly Board meeting on May 5, 2017.

If you have any further questions, please feel free to contact Chuck Sanders at 803-612-5000.

Best regards,

A handwritten signature in black ink that reads "Renee R. Brooks". The signature is written in a cursive style.

Ms. Renee R. Brooks
Chair of Board of Directors
South Carolina Student Loan Corporation

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P.O. Box 102405
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May 24, 2017

Mr. Jeffrey M. Schilz
Interim Executive Director
S.C. Commission on Higher Education
1122 Lady Street, Suite 300
Columbia, SC 29201

Dear Mr. Schilz:

I am submitting for review and approval by the Commission on Higher Education, the proposed budget for 2017-18 for administration of the Teachers Loan Program.

We are still in discussions with Firstmark, a division of Nelnet, for them to provide third-party servicing for the portfolio of loans. However, they have provided us with verbal estimates that enable us to provide the attached budget. As previously mentioned, we will continue to perform the origination services for the loans along with the administration of deferments and forgiveness for eligible teachers.

You will note that Firstmark has estimated a one-time conversion fee of \$180,000 that will not be an annual recurring charge. We will be performing a great deal of work on this conversion but are not requesting any funds for this effort. You will also note that the estimated servicing fee to Firstmark of \$215,000 is the line item "Third Party Servicing Fees".

If you have any questions, please do not hesitate to call me.

Sincerely,

A handwritten signature in black ink that reads "C. Sanders, Jr." in a cursive style.

Charlie C. Sanders, Jr.
President & CEO

South Carolina Student Loan Corporation
Contractual Services Budget for
South Carolina Teacher Loan Program
2017-2018

2017-2018

Proposed

OPERATING EXPENSES

Personnel Expenses:	
Staff Salaries	140,500
Social Security	10,700
Group Insurance	18,950
Retirement	24,650
Unemployment	200
<i>Total Personnel Expenses</i>	<u>\$ 195,000</u>
Contractual Expenses:	
Information Technology	98,500
Third Party Servicing Fees	215,000
Accounting	3,600
<i>Total Contractual Expenses</i>	<u>\$ 317,100</u>
General Operating Expenses:	
Rent	6,420
Telephone	9,900
Printing	800
Postage	6,200
Supplies	1,400
Equipment Lease/Maintenance	3,600
<i>Total General Operating Exp</i>	<u>\$ 28,320</u>
 <i>Total Operating Expenses</i>	 <u>\$ 540,420</u>
 One Time Servicing Conversion Cost	 <u>\$ 180,000</u>
 Total Expenditures	 <u>\$ 720,420</u>

South Carolina Student Loan Corporation
Contractual Services Budget for
South Carolina Teacher Loan Program
2017-2018

	<u>2016-2017</u>	<u>2016-2017</u>	<u>2017-2018</u>
	<u>Budget</u>	<u>Actual</u>	<u>Proposed</u>
<u>OPERATING EXPENSES</u>			
Personnel Expenses:			
Staff Salaries	162,300	162,300	140,500
Social Security	12,400	12,400	10,700
Group Insurance	20,600	20,600	18,950
Retirement	38,400	38,400	24,650
Unemployment	600	600	200
Total Personnel Expenses	\$ 234,300	\$ 234,300	\$ 195,000
Contractual Expenses:			
Information Technology	31,000	31,000	98,500
Third Party Servicing Fees			215,000
Accounting	4,400	4,400	3,600
Total Contractual Expenses	\$ 35,400	\$ 35,400	\$ 317,100
General Operating Expenses:			
Rent	8,760	8,760	6,420
Telephone	6,200	6,200	9,900
Printing	3,750	3,750	800
Postage	27,300	27,300	6,200
Supplies	2,250	2,250	1,400
Equipment Lease/Maintenance	5,800	5,800	3,600
Insurance- General	2,700	2,700	0
Total General Operating Exp	\$ 56,760	\$ 56,760	\$ 28,320
Total Operating Expenses	\$ 326,460	\$ 326,460	\$ 540,420
One Time Conversion Cost	\$ -	\$ -	\$ 180,000
Total Expenditures	\$ 326,460	\$ 326,460	\$ 720,420

**Schedule A
Private Loan Servicing Fees
and Optional Services**

Set-up Fees:

Servicer Set-up	\$195,000
Welcome Letter	1 st class postage + \$.10
Loan Add Fee (on-going)	\$3.00 (per loan)

Monthly Servicing Fees:

School status	\$2.05 (per borrower/month)
Grace status	\$2.05 (per borrower/month)
Deferment / Forbearance status	\$2.05 (per borrower/month)
Repayment Current	\$3.60 (per borrower/month)
Other – minimum servicing fees	\$25,000 (per year)

Delinquent Loan Fees:Delinquency Surcharge¹

	LOW		MID		MID-HIGH		HIGH	
	Collection Attempts	Collection Letter	Collection Attempts	Collection Letter	Collection Attempts	Collection Letter	Collection Attempts	Collection Letter
15-29 Days Past Due	2	0	7	1	12	1	18	1
30-59 Days Past Due	2	1	7	1	12	1	18	1
60-89 Days Past Due	2	1	7	1	12	1	18	1
90-119 Days Past Due	2	1	7	1	12	1	18	1
120-149 Days Past Due	2	1	7	1	12	1	18	1
150-180 Days Past Due	2	1	7	1	12	1	18	1
Total	12	5	42	6	72	6	108	6
	\$1.80		\$5.50		\$11.00		\$16.00	

(1) Firstmark reserves the right to modify the contact strategy for peak strategic performance and maximum efficiency. Borrower and co-borrower are each considered a participant.

Miscellaneous Fees²:

1098-E Tax Form	1 st class postage + \$.10
Privacy Statements	1 st class postage + \$.10

¹ Per participant per month on whom activity is performed.

² Increases in postage expense due to United States Postal Service postage increase will be a pass through cost

Special Project Fee	\$150.00 (per hour)
Removal/Deconversion Fee	\$40.00 (per borrower)
Manual Loan Conversion Fee	\$10.00 (per loan)
Sale/Internal Transfer Fee	\$3.00 (per loan)
Borrower Incentive Loan Program (BILP)	\$12,000 (one-time set-up)
BILP Annual Maintenance	\$1,000 (per year for each BILP)
Audit support	\$115.00 (per hour above 40 hrs per year)

Servicer Set-Up Overview

The servicer set-up consists of three separate and required I.T. functions:

1. De-Conversion of loans from the current licensed SLSS program.
2. Testing of data from de-conversion files to ensure they map correctly to the Firstmark Servicing System (STAR).
3. Set up of loan program within the STAR servicing system.

This effort is estimated at 1300 hours at the above Special Project Fee of \$150.00 (per hour). We will bill the actual hours needed for the effort as these are estimates without actual data review of the TLP program that would be converted.