



South Carolina Commission on Higher Education

Mr. Tim M. Hofferth, Chair
Ms. Dianne C. Kuhl, Vice Chair
Mr. Paul O. Batson, III
Mr. Devron H. Edwards
Dr. Bettie Rose Horne
Mr. Richard A. Jones, Jr.
Mr. Kenneth W. Kirkland
Ms. Allison Dean Love
Dr. Louis B. Lynn
Vice Admiral Charles Munns, USN (ret.)
Mr. Kim F. Phillips
Ms. Terrye C. Seckinger

Mr. Jeffrey M. Schilz
Interim President and Executive Director

June 7, 2018

MEMORANDUM

TO: Mr. Paul Batson, Chair, and Members,
Committee on Access & Equity and Student Services

FROM: Dr. Karen Woodfaulk, Director, Student Affairs

Consideration of SC Student Loan Corporation FY2018-2019 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 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.

Proposed Administrative Budget for FY2018-19: Explanation

The following table presents information regarding the previous FY2017-18 approved SC Teachers Loan Program budget request and actual expenditures for FY2017-18. The table also displays the Corporation's **proposed FY2018-19 Administrative Operating Budget** for the SC Teachers Loan Program and the difference (budget request and dollar amounts) between the approved budget for FY2017-18 and the proposed budget request for FY2018-19. A transfer to a third-party servicer will be initiated FY2018-19 – one year later than anticipated by the Corporation. As expressed by the SC Student Corporation, it is anticipated that this change will significantly increase SC Teachers Loan Program administrative costs. **(Attachment I)**

In previous years, the Corporation leveraged their resources and automated systems already in place for SC Student Loans to help keep the SC Teachers Loan Program's overall administrative costs at moderate levels. 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. Following passage of this Act, the loan portfolio managed by the Corporation (over \$4 billion) was significantly reduced.

Because new federal loans are now offered to students through FDSL under the U.S. Department of Education, contracting agents such as the Corporation are not authorized to originate new federal loans. The Corporation informed the Committee on Access & Equity and Student Services in March 2017 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 informed the Committee of their intent to outsource loan servicing to a third-party servicer.

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 SC Teachers Loan services (monthly servicing, delinquent loans, borrower statements and tax forms, conversion of current loans) using the same third-party servicer for SC Student Loans. It was anticipated that the transfer to the servicer would begin during the FY2017-18. However, the transfer to the third-party servicer for SC Teachers Loans did not take place during FY2017-18 and instead, will begin in FY2018-19.

**SC Teachers Loan Program Proposed Administrative Operating Budget
FY2018-19**

	FY2017-18 Approved Budget	Actual FY2017-18*	FY2018-19 Proposed Operating Budget	Increase/ Decrease vs. FY2017-18 Approved Budget (%)	Increase/ Decrease vs. FY2017-18 Approved Budget (\$)
Personnel Expenses					
Salaries/fringes	\$140,500	\$140,500	\$140,500	-0-	-0-
Social Security	10,700	10,700	10,700		
Group Insurance	18,950	18,950	18,950		
Retirement	24,650	24,650	24,650		
Unemployment	200	200	200		
Total	\$195,000	\$195,000	\$195,000	-0-	-0-
Contractual Expenses					
Information Technology	\$98,500	\$98,500	\$98,500	-0-	-0-
Third Party Servicing					
Fees	215,000	-0-**	245,000	+13.96%	\$30,000
Accounting	3,600	3,600	3,600	-0-	-0-
Total	\$317,100	\$102,100	\$347,100		+\$30,000
General Operating					
Rent	\$6,420	\$6,420	6,420	-0-	-0-
Telephone	9,900	9,900	9,900		
Printing	800	800	800		
Postage	6,200	6,200	6,200		
Supplies	1,400	1,400	1,400		
Equipment lease/ maintenance	3,600	3,600	3,600		
Insurance – General	-0-	-0-	-0-		
	\$28,320	\$28,320	\$28,320	-0-	-0-
Total	\$540,420	\$325,420	\$570,420		
One Time Servicing Conversion FY 2017-18	\$180,000	-0-**	\$180,000		
TOTAL	\$720,420	\$325,420	\$750,420	+4.17%***	+\$30,000

*Reflects actual plus projected expenditures for the fiscal year ending 6/30/2018.

**Amount requested in the previous year's budget (FY2017-18). However, the transfer to the third -party servicer did not take place.

*** Increase vs. previous year's budget request – does not reflect increase in actual expenditures for FY2017-18

The first column in the table displays the budget approved by CHE for FY2017-18 (\$720,420). The second column reflects actual expenditures for fiscal year ending 6/30/2018 (\$325,420). The third column shows the proposed operating budget for FY2018-19 in the amount of \$720,420. Again, although funds were budgeted for third-party servicing fees and a one-time servicing conversion in FY2017-18, the Student Loan Corporation did not use the funds because the transfer to the third-party servicer did not take place.

The fourth and fifth columns show the difference (percentage and dollars) between the previous year's budget approved by CHE and the Corporation's FY2018-19 budget request. In addition to the FY2018-19 total costs for Personnel, Contractual and General Operating expenses, the third-party servicing fees in the amount of \$245,00 and the one-time conversion fee in the amount of \$180,00o is included in FY2018-19 proposed budget.

According to the Corporation, the proposed budget request for third party servicing fees reflects a 13.96% increase over last year's request. (**Attachment II**)

FY 2018-19 Budget Explanation:

Under the category of Personnel Expenses (share of staff salaries, Social Security, group insurance, retirement and unemployment), the FY2018-19 budget request is \$195,000. 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. 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.

Under Personnel Expenses, the requested funds reflect no change from the previous year's request in this budget category. Staff salaries in the amount of \$140,500, Social Security benefits in the amount of \$10,700, group insurance in the amount of \$18,950, retirement in the amount of \$24,650 and unemployment in the amount of \$200 reflect no change from the previous year's budget request.

Overall, the Corporation's FY2018-19 budget request as proposed, will show no change in total costs under Personnel and General Operating Expenses for the SC Teachers Loan Program. The proposed FY2018-19 budget shows an increase in Contractual Expenses for servicing fees due to the transfer to a third-party servicer which will occur this fiscal year rather than last year. In the previous year, the Corporation requested \$215,000 under this line item. Funds were not used in FY2017-18. The budget request for FY2018-19 shows a \$30,000 increase (\$245,000). In addition, it is important to note that the proposed FY2018-19 budget includes a one-time conversion cost in the amount of \$180,000 for the transfer of SC Teachers Loans to the third-party servicer. Again, funds were not used for one-time conversion fees in the previous year. The Corporation's proposed FY2018-19 total budget request for the South Carolina Teachers Loan Program, including the third-party servicer's one-time conversion fee, is \$750,420.

Unused Funds During FY2017-18

It was anticipated that the Corporation would change to a third-party servicer in FY2017-18. However, these funds were not expended because the transfer to the servicer did not take place during the fiscal year. The servicer is now in place and the Corporation's FY2018-19 budget request includes third-party servicing fees (\$245,000) for monthly servicing, delinquent loans, transfer, and conversion fees, and a one-time set up fee (\$180,000).

Recommendation:

The staff recommends that the Committee on Access & Equity and Student Services commend favorably to CHE approval of the SC Student Loan Corporation's FY2018-19 proposed budget in the amount of \$750,420, which includes annual third-party servicing fees in the amount of \$245,000 and a one-time conversion fee in the amount of \$180,000 for

administration of the SC Teachers Loan Program. The staff also recommends that the SC Student Loan Corporation explore alternatives that would lower servicing costs.