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Embracing Change

2018 CECU Annual Convention & Expo

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Agenda

- Overview of Change – Tony Guida
- Focus on Compliance – William Calhoun
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“Skate to Where the Puck is Going”*

Wayne Gretzky



*“That’s easy for you to say!”

Marc Andre Fleury

Change and More Change

Already happening

- State Authorization delay
- Less targeted scrutiny by USDE against sector
- Heightened focus on NFP conversions
- Uptick in adverse activity against sector by states and Senate Ds
- Coalescence around student access, completion, cost, and employment outcomes
- Heightened interest in apprenticeships
- Less federal involvement also means less Federal Student Aid funding
- Fragmented sector outreach

On the horizon

- Final GE, BDR and Title IX rules by Nov 1
- State Auth and Accreditation Neg Regs
- Third-Party Servicer Relief
- USDE decision on ACICS
- Low probability of Comprehensive HEA Reauthorization in near term
- Reauthorization of CTE (Perkins Act)
- Ongoing Appropriations legislative activities
- Possible change in one or both houses of Congress in 2018
- Uncertainty of 2020 Presidential Election

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Prepare Now! Focusing on Compliance

- Wisely use time of reduced enrollment and decreased regulatory intensity
 - Find balance between allocating resources to today's students and tomorrow's oversight
- Find dollars to spend on compliance
 - “Ambassador” contact—increasing show rate
 - Retention efforts—increasing return on marketing dollars and enrollment expenses
 - Creative ways to get more from current enrollments and existing staff
- Make time to increase compliance and documentation of compliance
 - Audits of key performance indicators: marketing materials; loan documentation and practices; CDR efforts; enrollment issues; retention; placement
 - Plan for improvement
 - Implement improved processes and record keeping
- Lay the foundation for future success when enrollments increase and regulators become more active

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First Steps in Preparing for Change – Student Finance Environment

- Determine how the institution's students are performing in the repayment of their federal loans.
- Understand student behavior and drivers / attributes for repayment and default.
- Assess whether existing student aid offerings are meeting all of the needs of both the school and the student:
 - Identification of existing sources that are at risk of going away or decreasing in the near term (e.g. Perkins, state grants, Grad Plus, Parent Plus);
 - Assessment of discounted aid or other unfunded sources;
 - Determination of whether other sources are currently needed.

Why Start With Repayment Rates?

- HEA proposals and other regulatory views (i.e. GE) indicate schools will be accountable for repayment rates.
- If no prior institutional loan programs exist, actual data on the successful repayment of your students' loans may be limited.
- Published CDR data may not correlate to actual default rates for the institution or the repayment rates for students.
- Lenders, sponsors, and/or investors will need historical data to support the viability of any non-Federal student finance sources
- If the net yield on alternatives to Federal Aid are not adequate to cover the following: 1) loan losses, 2) administrative cost of the replacement solutions, and 3) the cost of capital, then net proceeds to the schools will likely be discounted versus the fully funded Title IV aid received today.
- Additional resources to promote financial literacy may be needed to counter the national headwinds and entitlements affecting loan repayments.

CDR Comparisons by School Type

	2010 CDR	2011 CDR	2012 CDR	2013 CDR	2014 CDR
Public, 2-3 Yrs	16.7%	14.8%	13.0%	13.0%	13.5%
Public, 4+ Yrs	13.0%	12.9%	11.7%	11.3%	11.3%
Public, Total	13.0%	12.9%	11.7%	11.3%	11.3%
Non-Profit, 2-3 Yrs	22.6%	25.8%	23.7%	20.1%	17.6%
Non-Profit, 4+ Yrs	8.5%	7.8%	7.0%	7.3%	8.2%
Non-Profit, Total	8.6%	8.0%	7.2%	7.4%	8.2%
For-Profit, 2-3 Yrs	20.0%	18.8%	16.4%	15.4%	14.8%
For-Profit, 4+ Yrs	22.0%	18.7%	15.2%	14.0%	14.7%
For-Profit, Total	21.8%	18.7%	15.3%	14.1%	14.7%
All Colleges and Universities	14.4%	13.4%	11.7%	11.0%	11.2%

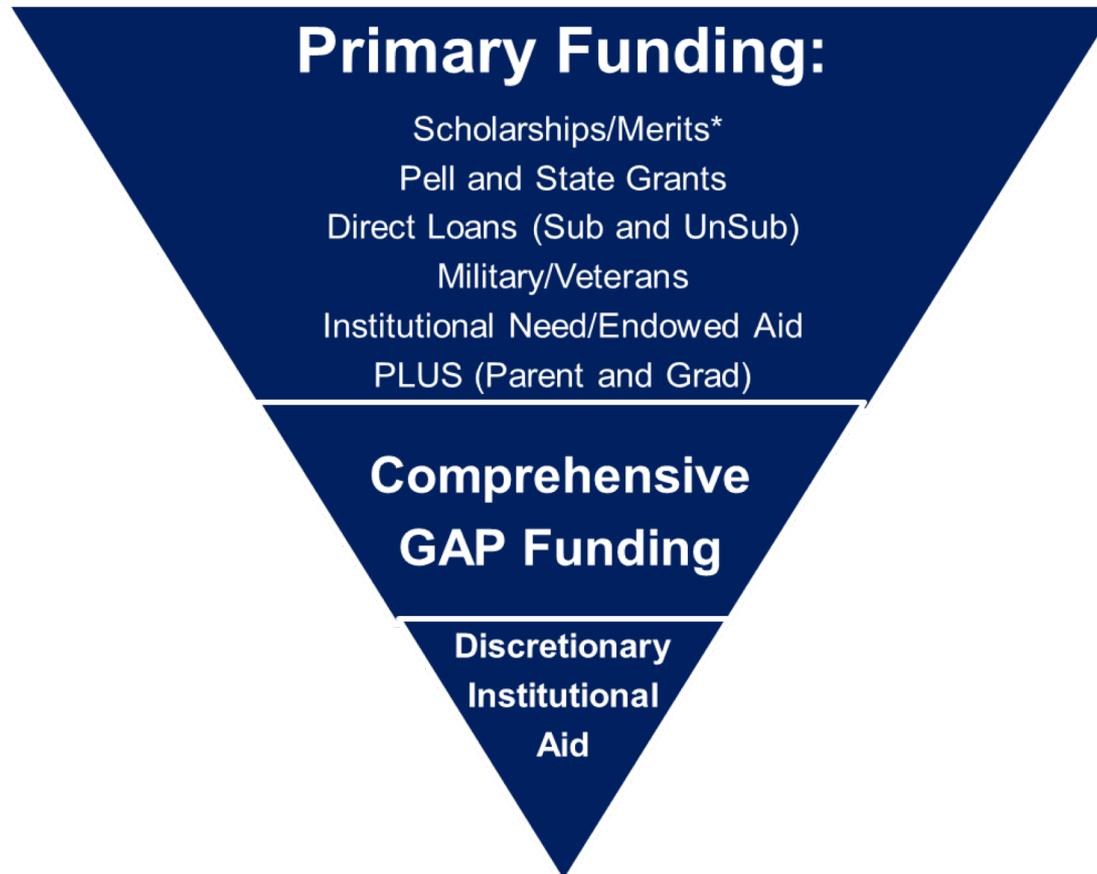
Source: <https://studentaid.ed.gov/sa/about/data-center/student/default>

3-Year Repayment on Undergrad Federal Loans

All Schools		
	3-Year Repayment Rate (2016 Scorecard)	3-Year Repayment Rate (2017 Scorecard)
Public, 2-3 Yrs	44.8%	44.9%
Public, 4+ Yrs	49.1%	48.8%
Public, Total	49.0%	48.8%
Non-Profit, 2-3 Yrs	23.1%	30.2%
Non-Profit, 4+ Yrs	56.6%	56.2%
Non-Profit, Total	56.1%	56.0%
For-Profit, 2-3 Yrs	31.5%	33.6%
For-Profit, 4+ Yrs	26.2%	28.4%
For-Profit, Total	26.9%	29.0%
National Median	46.0%	47.0%

Source: <https://collegescorecard.ed.gov/data/>

Sources for Tuition and Fees – All Three Are Needed



*Based on policy or systemized rubric

Today's GAP Funding Options Needed

Some or all of the following products may be needed to ensure that all admitted students will be able to attend

1) Cash Payment Options

(Fully Funded During Enrollment Period)

Cash Payments from Students	Cash Payments from Family or Support System	In-School Payment Plans	Third-Party Payments (Corporate/Tuition Reimbursement)
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2) Credit-Tested Loans

(Fully Funded by Third Parties / Highly Selective Underwriting)

Examples: Goal Structured Solutions – Ascent Tuition & Ascent Independent
Sallie Mae, Discover, College Ave, PNC, Wells Fargo

3) School-Sponsored Loans & ISAs

(Discounted Funding or Payments Over Time)

Private Loans with Risk-Sharing and a School guarantee (funded by an Investor)	Private Loans funded & guaranteed by School but owned and managed by NFP entity (funded by School)	Institutional Loans (funded by School)	Income Sharing Agreements (funded by School or potentially an Investor)
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4) Discretionary Institutional Aid (Grants and Scholarships)

(Unfunded)

These solutions should be used on an exception basis only with a structured approval process

Overview of Income Sharing Agreements

- Income-sharing agreements (“ISAs”) provide students with funding for college education in exchange for a set percentage of their post-education salary over a certain number of years after graduation
 - Does not replace government-subsidized financial assistance but offers students an alternative to private student loans

- Exact terms vary by program but on average, generally set to be competitive with current education finance options
 - Typical terms and conditions:
 - No interest paid or accrued on the total ISA amount funded
 - ISA payments adjust according to level of income over term of agreement
 - Ensures affordable payments for students as amount they pay increases/decreases with income
 - Typically ranges between ~3%-10% of salary over ~7-15 years
 - Minimum income threshold for repayment
 - Repayment does not occur until student earns minimum salary (typically \$20,000-\$30,000)
 - Payments deferred until student starts working full-time
 - Payments paused when student returns to school or loses job
 - Maximum amount paid generally capped (*i.e.*, ~1.5-2.5x funded amount)
 - Once ISA term has elapsed, student’s obligation is over no matter how much has been paid

- A number of ISA programs have emerged in recent years due to the rising costs of post-secondary education
 - Since launching a pilot ISA program in 2016, Purdue University has disbursed over \$2 million to 160 juniors and seniors from ~80 different academic majors
 - Exploring option to expand ISA program to include freshmen and sophomores
 - Coding boot camps and other nonaccredited, specialized institutions who do not have access to federal student loan programs have also begun offering ISAs as a way to attract more students

ISA Funding

One (Gasp) Benefit of the noise around CDR and Gainful is that we have more information than ever on earnings relative to the cost of tuition over time.

While traditional capital sources are hesitant to enter into the student debt market other forms of capital are interested.

Think BIG when trying to solve the problem for your students.

Summary - Action Steps / Levels of Engagement

Learn – Gather information on your students repayment rates to better understand the level of risk your institution has relative to the external risk factors described in this presentation.

Analyze

1. Analyze repayment rates and begin to assess ways to positively influence student behavior.
2. Analyze all student aid sources (including federal/state aid and GAP funding) to determine if enhancements or additional student finance solutions are needed.

Act

1. Implement enhanced financial literacy programs (in-school) and enhanced student outreach strategies (post-separation) to positively impact repayment on all categories of loans.
2. Implement new/enhanced student finance solutions that address immediate or near term needs of the students and/or Institutions. This can improve current financial viability of the institution and build key infrastructure that can be leveraged in the future.

Q&A



Anthony J. Guida Jr.
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Tony Guida focuses his practice on the PreK-12, postsecondary and corporate training education sectors handling issues relating to federal and state education law, licensing and accreditation, mergers, acquisitions and other substantive changes; government response and crisis management, federal and state education policy; and government affairs. An experienced senior executive in the field of higher education, Mr. Guida bring a unique business side perspective to his engagement with clients.

Mr. Guida has previously served in senior executive positions with two major publicly traded companies that owned and operated colleges and universities on multiple platforms, where his responsibilities included regulatory affairs and compliance, acquisitions and divestitures, government and public affairs, policy, strategic planning, new campus development, and public relations. He has also served as CFO and general counsel for a small proprietary college. Prior to joining the higher education industry more than 15 years ago, Tony was a partner in the litigation section of a large regional law firm.

Mr. Guida currently serves on the Board of Trustees of a private non-profit university, is a member of the National Association of College and University Attorneys (NACUA), and previously served on the Board of Directors of a national trade association representing proprietary institutions. He has previously served on the Advisory Committee on Student Financial Assistance, which was created by Congress to serve as an independent source of advice and counsel to Congress and the Secretary of Education on student financial aid policy.



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William Calhoun brings a rich history in post-secondary education and publicly-traded companies as he assists clients with revenue growth, risk mitigation, and regulatory compliance. William helps our clients accomplish these objectives by bringing a creative consumer focus, unique experience in this space, and dedication to the needs of our clients' students and customers. These characteristics have allowed William to develop and coordinate growth, compliance and risk-mitigation strategies across admissions, education, career services, marketing, accreditation and licensing, and internal education departments.

Career Highlights:

- Developed and rigorously managed overall strategy in investigations by Senate Health, Education, Labor & Pensions Committee, Consumer Financial Protection Bureau, individual state attorneys general, the Securities & Exchange Commission, various Offices of the Inspector General, federal and state education departments, and by the Department of Justice;
- Law clerk to the United States Court of Appeals for the Sixth Circuit and editor-in-chief of the BRIGHAM YOUNG UNIVERSITY LAW REVIEW;
- University and departmental honors graduate of Brigham Young University, where he was also a two-time ITCA Academic All-America, First Team tennis player, and magna cum laude graduate of J. Rueben Clark Law School.



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Don King is a Big-4 CPA that began his career in public accounting, where he worked primarily on Real Estate, Energy, and Higher Education clients. His King Consulting Group, LLC (KCG) leverages a team that has over 50 years of Higher Ed experience in a variety of Institutional Finance/Accounting and Student Finance roles. The practice focuses on helping Institutions with issues related to: Financial, Operational and Regulatory Advising; Assistance with Educational Mergers & Acquisitions (M&A) Transactions; Education GAP Funding Consulting; Education Loan Portfolio Advising; and other Finance Support Services, such as: Project/Change Management Support, Database and Reporting Projects, Treasury Operations, Cash Management and Forecasting, Credit Facility Restructurings, and Ad-Hoc Financial Modeling & Analysis.

Don previously served in a variety of roles in the post-secondary education industry, including: executive level finance positions focused on operational and financial oversight of multi-state and multi-national educational institutions, external auditor, and executive recruiter.

Don has over decade of experience in the Private Student Lending Industry with particular expertise in building and managing loan programs through partnerships with schools, third-party servicers and sources of capital. His team also has experience analyzing millions of federal and private student loan records for hundreds of thousands of students.

Don serves on the Regional Board of HOPE International, a global Christ-centered nonprofit focused on addressing both physical and spiritual poverty through microenterprise loans and development.

Don holds a Bachelor's degree in Business Administration, with a concentration in Accounting, Summa Cum Laude, from the College of William & Mary.



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Bruce serves as President of Cobbs Allen and Managing Director of Outfront Financial. He founded the Education Practice Group in 2006 and is a frequent speaker on risk management for online and vocational education. He is an industry leader on securing manuscripted coverage for schools, including qui tam defense, borrower defense to repayment, consumer protection law suits. He has also used insurance to solve complex problems for transactions including required letters of credits and transferring legacy liabilities. He has been published numerous times in industry periodicals and is a member of several state and national associations allied advisory boards.

In addition to his work with schools, Bruce teaches continuing education classes for CPAs on captive taxation issues and has also filed patents around new ways to use insurance to solve risk management problems. He is an Advisory Board member for AIG Southeast, a member of the Assurex Global Innovation Group, and a member of YPO.