ITEM C.104
FOR ACTION

FOR PRESBYTERIAN MISSION AGENCY EXECUTIVE DIRECTOR'S OFFICE USE ONLY					
	A. Finance		E. Corporate Property, Legal, Finance		J. Board Nominating & Governance Subcommittee
	B. Justice		F. PC(USA), A Corporation		P. Plenary
X	C. Leadership		G. Audit		
	D. Worshiping Communities		H. Executive Committee		

Subject: **How Federal Student Loan Forgiveness in 2017 Affects Undergraduate and Graduate Loans offered by Financial Aid for Service**

Recommendation:

That the Presbyterian Mission Agency Board and the Board of Directors of the Presbyterian Church (U.S.A.), A Corporation:

1. **Recognize that loans offered through Financial Aid for Service no longer offer a significant advantage for or lower costs to Presbyterian students or parents *(this program is completely separate from our financial support for seminary students*).**
2. **Direct the Presbyterian Mission Agency through its Financial Aid for Service office to cease all student and parent loan origination activity for undergraduate and graduate loans effective April 1, 2016. Transformational Leadership Debt Assistance and Season of Service Loan Assistance programs will continue.**
3. **In anticipation of the October 2017 effective date for loan forgiveness through Public Service Loan Forgiveness (PSLF), direct Presbyterian Mission Agency to:**
    a. **Explore means to forgive existing PCUSA student loan balances for teaching elders serving congregations in pastoral positions and borrowers that entered repayment since 2007 and would qualify for relief under the PSLF guidelines.**
    b. **Propose alternatives to lending with particular emphasis on expanding repayment assistance for a) teaching elders, b) missionaries serving through World Mission, and c) church members presumably ineligible for Public Service Loan Forgiveness because their employment activity encompasses worship, religious instruction, and proselytizing.**
4. **Direct the Presbyterian Mission Agency staff to coordinate this work with the Foundation and Board of Pensions staff in the following ways:**
    a. **Coordinate with the Foundation to invest accumulated interest and seek maximum yield for the program resulting from 2.b. above.**
    b. **Coordinate with the Board of Pensions to improve awareness of plan members to manage educational debt and avoid or reduce redundancies in programs for student loan repayment assistance.**
5. **Direct the Presbyterian Mission Agency staff to reserve the unused portion of 2015 and 2016 budget (the portion for loans that otherwise would have been originated) for servicing of existing loans, and administrative and legal expenses that may be incurred by Financial Aid for Service to design a new program and create education debt management resources.**

Background:

The Presbyterian Church (U.S.A.) has, for decades, sought to provide low-cost alternatives to unsubsidized Federal and/or private student loans for the benefit of church members. For the most part, we have succeeded, by offering loans with in-school deferment, and parent loans with lower interest rates. We have succeeded by setting interest rates that at least meet, or are below, the interest rate on federal unsubsidized loans and Parent PLUS Loans and by adopting as many of the repayment plans and debt relief features offered through federal loan programs as can be supported through existing loan servicing contracts and the particular donor restrictions.

Program design and lending activities require balancing the short term needs of the student against the potential for harm to the student. Using financial reliability standards, Financial Aid for Service serves church members by developing strong credit standards and educational loan balance caps to effect sustainable and affordable educational debt. During the financial crisis in 2007, new default aversion initiatives were launched to renegotiate loans with distressed borrowers.

Congress enacted the College Cost Reduction and Access Act of 2007. This legislation resulted in loans that have features that our loan program cannot match due to: 1) restrictions in the donative documents, 2) our loan servicing contracts, and 3) Master Promissory Notes executed since 2003 which require repayment within 120 months of graduation. The first change of the 2007 act was income-based repayment. Income-based repayment effectively lowers monthly payment for borrowers based on the total volume of the borrower's student loans and the borrower's income and extends the term of the loan to 20-25 years. The second 2007 change is Public Service Loan Forgiveness (PSLF), which establishes a basis for forgiving loans after 10 years of eligible service.

In October 2017, the first federal student loans made under the 2007 authorizing act will start reaching the 10 year requirement for loan forgiveness. PSLF extends to the employees of not-for-profit organizations but specifically excludes employment activities related to worship, religious instruction, and proselytizing.

Starting in 2010, the Presbyterian Mission Agency Board has approved Financial Aid for Service proposals to create loan forgiveness and repayment assistance programs limited to student loan funding conveyed without restriction to maintain the loan fund in perpetuity through repayment. To date, $400,000 of debt forgiveness for teaching elders serving small congregations in part-time and/or temporary pastoral positions, and $75,000 of assistance to church members serving in one-year volunteer positions has been deployed through Transformational Leadership Debt Assistance and Season of Service Loan Assistance.

Given the current conditions, Financial Aid for Service is no longer able to offer church members the assurance that loans offered by the Presbyterian Church (U.S.A.), A Corporation provide a significant advantage or lower cost. This is reflected by a sharp downward trend in lending since 2007 when Financial Aid for Service:

- Stopped actively promoting the student loan to scholarship applicants
- Encouraged borrowers to use federal loan programs if they were preparing for careers in fields (teaching, health care, social work) where PSLF was more likely to be available, and
- Maintained a 5.5% interest rate for student loans even as federal student loans dipped below 5%.

The endowments assigned to Financial Aid for Service for Educational Loans represent 7.5 million dollars of market value. We are unable to discern a practicable way to deliver a student loan product to church members with a lower interest rate, equivalent repayment terms, and the forgiveness features provided by federal loans that also afford sufficient flexibility to unilaterally alter the terms of the loan in the manner demonstrated by Congress through the aforementioned College Affordability Act. Encumbering church members with a more expensive, private educational loan is inconsistent with the mission of the Presbyterian Mission Agency. Without exception, gifts restricted to lending to meet educational cost pre-date the creation of widespread loan forgiveness for public service by decades. Donors could not have contemplated the current conflict between our duty to fulfill the donor intent, in those instances where the donor stipulated repayment to maintain the loan fund in perpetuity, and our duty to act in the interest of teaching elders and church members.