



TREASURY DEPARTMENT
COMMONWEALTH OF PENNSYLVANIA
HARRISBURG, PA 17120

JOSEPH M. TORSELLA
TREASURER

May 8, 2020

Via First Class Mail & Electronic Transmission

The Honorable Tom Wolf
Governor
Commonwealth of Pennsylvania
225 Main Capitol Building
Harrisburg, Pennsylvania 17120

Dear Governor Wolf:

We write to request your support for the release of federal CARES Act¹ funds to temporarily relieve Pennsylvania student loan borrowers from interest payments associated with Pennsylvania Higher Education Assistance Agency (PHEAA) originated loans. A targeted allocation of up to \$2.2 million from the \$3.9 billion deposit received by the Commonwealth pursuant to the CARES Act would provide necessary economic support to Pennsylvania students and families of PHEAA-owned private student loans impacted by the economic disruption caused by the necessary COVID-19 mitigation orders. Importantly, the use of these funds is entirely consistent with the Act's legislative objectives and directives issued by the federal Treasury Department, and would allow for PHEAA private loan borrowers to access the same financial assistance benefits that are available to federally guaranteed student loans held by the Department of Education, relief that was extended in the CARES Act.

Pennsylvania Student Lending Programs

Last year, PHEAA began the **PA Forward Student Loan Program**, which provides a series of financial aid products for Pennsylvania students to finance higher education costs beyond traditional scholarships, federal grants and loans, and Pennsylvania state grants. The PA Forward Student Loan Program, supported by a \$250 million line of credit provided by Pennsylvania Treasury, provides a zero fee, low interest lending opportunity to qualified student borrowers. Pursuant to the terms of Treasury's line of credit,² PHEAA's administration of the lending program is mandated to be consistent with a standard of care set forth in the *Principles for Non-Profit, State Based and State Chartered Organizations Making Education Loans*.³

¹ H.R. 748, CARES Act, Public Law 116-136.

² Pennsylvania Treasury / PHEAA Note Purchase Agreement, ¶ 5.14 (December 2019).

³ https://cdn.ymaws.com/www.efc.org/resource/resmgr/efc_members/2019-2020_nfp_loan_handbook.pdf (Appendix A).

Presently, there are over 2,600 PA Forward borrowers in repayment status, collectively having a Pennsylvania nexus of 99.8%.

Though no longer originating, PHEAA's **Keystone Extra loan** is a legacy private lending program that was designed to provide Pennsylvania undergraduate and graduate students with a supplemental loan to satisfy financial gaps in education costs. The borrower and co-signer are required to be a Commonwealth resident, enrolled at least half-time in a degree program and must possess a demonstrated financial need. There remain over 1,500 Keystone Extra loan borrowers in repayment status, collectively having a Pennsylvania nexus of 98.1%.

PHEAA's last associated lending program, **MedBest loan program**, was developed to provide financial assistance to students attending medical school within the Commonwealth. The loans covered up to 100% of the actual tuition, room and board costs of medical school. There are 86 MedBest borrowers in repayment status, with a 100% Pennsylvania nexus. The investment in medical education has proven critical as Pennsylvania seeks to effectively respond to the emerging COVID-19 health threat.

Unfortunately, as non-federally originated and guaranteed student loans, borrowers of these private student loan lending products do not benefit from the CARES Act's automatic forbearance and zero interest rate financial assistance provisions. We seek to correct this disparate treatment of Pennsylvania student borrowers by providing the following benefits, identical to the benefits extended by the CARES Act to federal borrowers:

- Automatically place all borrowers that are in a repayment status into a forbearance status suspending payments (with an option to continue payments at the borrower's discretion) until September 30, 2020;
- Reduce the loan interest rate to zero until September 30, 2020;
- Available beginning March 13, 2020 through September 30, 2020.

Legal Authority

The CARES Act establishes three criteria defining permitted payments from funds distributed to each state: (1) necessary expenditure incurred due to the public health emergency with respect to the Coronavirus Disease 2019; (2) not otherwise accounted for in the state budget most recently approved as of March 27, 2020; and (3) arose during the period between March 1, 2020 and December 20, 2020.⁴ As of this date, there are no other statutory restrictions related to the expenditure of CARES Act funds distributed to the Commonwealth.

⁴ CARES Act §5001.

Necessary efforts to mitigate the health threat posed by COVID-19 have caused significant economic disruption. Economists have projected nationwide unemployment rates could exceed 20%.⁵ In fact, between March 15 and April 30, Pennsylvania Treasury has processed 1.6 million new unemployment payments, totaling over \$2.7 billion. Students whose loans are in a repayment status are facing an economy that has, without warning, significantly contracted – an event neither contemplated nor budgeted for in the General Appropriations Act of 2019.

On April 23, 2020, the United States Treasury Department issued a *Guidance for State, Territorial, Local and Tribal Governments*⁶ that identifies permissible purposes for the expenditure of the federal funds. Additionally, this week, the Treasury Department posted several responses to questions, refining its prior guidance to state governments.⁷ Collectively, Treasury has identified “expenses associated with the provision of economic support in connection with the COVID-19 public health emergency” as a permissible expense.⁸ Similar grants of economic support have been approved or made to distressed small businesses, troubled renters to prevent eviction, homeowners to prevent foreclosures, and individual taxpayers.

The extension of loan and interest payment forbearance to Pennsylvania borrowers of PHEAA-owned private student loans is consistent with the CARES Act and administrative guidance.

It is worth noting that similar six-month forbearance benefits have already been provided to borrowers of federally sponsored and guaranteed loans pursuant to the provisions of the CARES Act. Illustrative of the strong bipartisan support for student loan assistance was U.S. Senator John Cornyn’s (R-Texas) observation that “there seems to be broad bipartisan agreement that we need a freeze on student loan payments to provide peace of mind to tens of millions of borrowers.”⁹ Consistent with the objective of providing this peace of mind to student borrowers, we seek to do what the CARES Act stopped short – extend these financial benefits to Pennsylvania borrowers of PHEAA-originated student loans.

⁵ <https://www.bloomberg.com/news/articles/2020-04-14/worst-case-fears-of-20-30-u-s-jobless-rate-are-now-realistic>.

⁶ <https://home.treasury.gov/system/files/136/Coronavirus-Relief-Fund-Guidance-for-State-Territorial-Local-and-Tribal-Governments.pdf>.

⁷ <https://home.treasury.gov/system/files/136/Coronavirus-Relief-Fund-Frequently-Asked-Questions.pdf>.

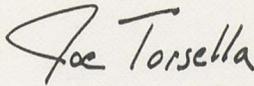
⁸ *Id* at 3.

⁹ *Congressional Record* 166 (2020) p. S1988. (Text from: Congressional Record Permanent Digital Collection); Accessed: May 3, 2020.

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Attached for your consideration is a cost table that details the financial justification for the requested \$2.2 million CARES Act distribution. Our offices are prepared to provide any additional information you may need in support of this request. Thank you in advance for your consideration of this request.

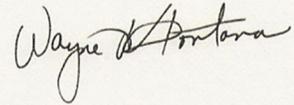
Sincerely,



Joseph M. Torsella
State Treasurer



Michael Peifer
State Representative
PHEAA Chairman



Wayne D. Fontana
State Senator
PHEAA Vice Chairman

Attachment

cc: James H. Steeley, President & Chief Executive Officer
Pennsylvania Higher Education Assistance Agency

The Honorable Bryan Cutler
Majority Leader
Pennsylvania House of Representatives

The Honorable Frank Dermody
Democratic Leader
Pennsylvania House of Representatives

The Honorable Jake Corman
Majority Leader
Pennsylvania Senate

The Honorable Jay Costa
Democratic Leader
Pennsylvania Senate

Cost Breakdown

The total cost to incorporate the CARES Act borrower benefits for the Pa Forward Student Loan, MedBest and Keystone Extra loan programs will be approximately \$2.2 million

- The cost associated with the Pa Forward Student Loan Program would be \$1.9 million for the 2,642 borrowers. Included in this cost are the fees associated with the rating agency confirmation and notification processes, because the majority of these loans securitize the PHEAA Education Loan Revenue Bonds, Series 2020A&B. The borrower benefit changes to the \$38.6 million Pa Forward Student Loan portfolio would cost approximately \$322 thousand per month or \$121.75 per borrower per month.
- The cost associated with the \$11.6 million MedBest and Keystone Extra private student loan program portfolios would be \$0.3 million (\$289 thousand) for the 1,647 borrowers. The borrower benefit changes to the \$11.6 million MedBest and Keystone Extra portfolios would cost approximately \$49 thousand per month or \$29.26 per borrower per month.