

A photograph of the Washington State Capitol building, featuring a large dome and classical architectural elements, surrounded by green trees and colorful flowers in the foreground.

Understanding Borrowing in Washington

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WASHINGTON STUDENT
ACHIEVEMENT COUNCIL
EDUCATION · OPPORTUNITY · RESULTS



Agenda

Educational Loans Overview

Affordability Framework

Student Debt In Washington

Policy Implications



Educational Loans Overview

Loan Types

Loan Limits

Federal Loan Benefits

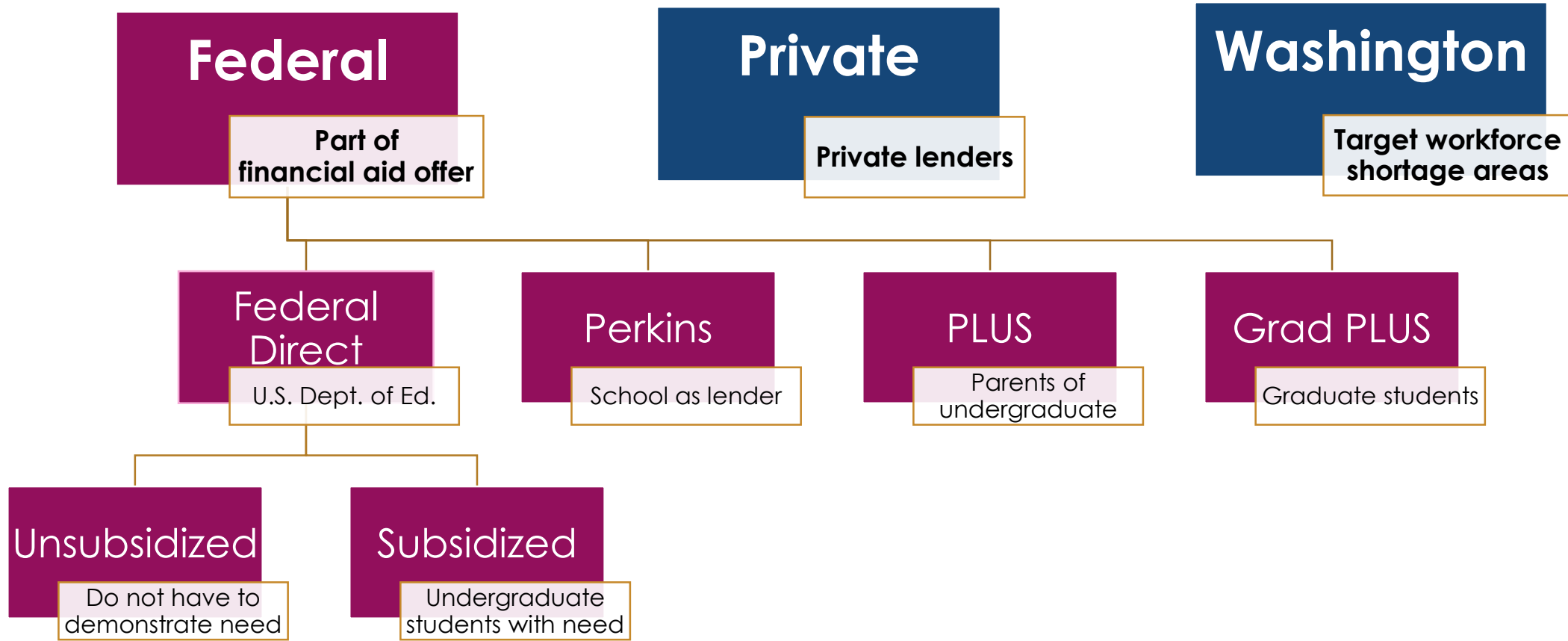
Federal Repayment Plans

Private Education Loans

Consumer Information



Primary Types of Educational Loans





Federal Student Loans for Undergraduates

Federal Direct Loan Program

Subsidized loans for students with financial need

- No interest while in school at least half-time and during grace and deferment periods
- Current interest rate is 3.76%

Unsubsidized loans for students

- Interest accrues from first loan disbursement
- Current interest rate is 3.76% (5.31% for graduate students)

Perkins Loan

- Subsidized loans for students with financial need
- Current interest rate is 5%

PLUS

- **Graduate students or parents** of dependent undergraduate
- Current interest rate is 6.31%



Federal Student Loan Limits

STAFFORD DIRECT LOANS

Year in School	Dependent	Independent	Subsidized Cap
First Year	\$5,500	\$9,500	\$3,500
Second Year	\$6,500	\$10,500	\$4,500
Third and Beyond (each year)	\$7,500	\$12,500	\$5,500
Aggregate Limits	\$31,000	\$57,500	\$23,000

PERKINS LOANS

	Annual	Aggregate
Undergraduate	\$5,500	\$27,500
Graduate Student	\$8,000	\$60,000

- Dependent students must report their parents' income and assets on the FAFSA.
- Dependent students may borrow additional amounts if parents were denied parent PLUS loan.
- PLUS loan limit is cost of attendance and requires credit check.



Repayment Options & Consequences

Deferments or Forbearance – delay of repayment

- In school half-time
- Active military service
- Economic hardship
- Illness

Forgiveness – teacher or public service

- Low-income school for five years (teacher)
- Certain positions and 120 payments (public service)

Cancellation or Discharge options

- Total and permanent disability
- Death
- Bankruptcy (only in rare cases)
- Closed school
- Unauthorized payment/false certification

Default

Failure to repay the loan according to the promissory note terms results in a default. For most federal loans, default occurs if no payment for more than 270 days.



Primary Federal Student Loan Repayment Plans

Standard

- Fixed amount paid up to 10 years and less interest paid overall.

Graduated

- Lower at first, then increase every two years; pay more interest over time.

Extended

- Payments fixed or graduated but lower; students must have more than \$30,000 in outstanding loans.

Income-Based/Pay as You Earn

- Considers total loan debt, income, household size.
- Show high debt to income hardship.



Private Loans

- Provide **supplemental funding** to cover unmet student need.
- **Do not have caps.** Students may borrow amounts up to school certified cost of attendance.
- Essentially **not regulated** by the government.
- Loans **issued by banks** or credit unions.
- Approvals depend on **credit worthiness** of the borrower/co-signer.
- Often have **variable interest** rates.
- **Higher interest** rates than with federal loans.
- Repayment terms are often **less flexible** with private loans:
 - Typically no income-based repayment plans.
 - Typically no loan forgiveness or deferment options.



Consumer Information

Federal

- Entrance counseling
- Financial awareness counseling
- Repayment calculators

Campus

- Financial aid orientations
- Information – award letters, portal, website

State

- readyssetgrad.org
- Financial literacy – Dept. of Financial Institutions

Private

- Online resources
- Nonprofit assistance



Affordability Framework

Principles

Partners

Measuring affordability

Packaging

Aid by income



Paying for College is a Shared Investment

Students &
Families

Federal & State
Governments

Institutions

Business &
Philanthropy

Every Washington resident who desires and is able to attend postsecondary education should be able to cover educational costs.



Affordability is viewed from the **perspective of students and families.**

- All students and their families are responsible for sharing in the cost of their education.
- Families should receive early, high-quality information about financing options.
- A reasonable amount of work supports student success.



Ensure affordable access to high-quality instruction through coordinated funding to public institutions.

- Set stable and predictable tuition and financial aid policies.
- Provide a variety of affordable educational pathways for students.
- Consider the full cost of attendance for each sector when addressing affordability.



Institutions

Play a critical role in addressing affordability, including through institutional aid and financial aid policies.

- Provide services that support student success.
- Commit to serving a diverse student body, including low-income and first-generation students.



Businesses and private donors play an important role in addressing affordability through tuition and scholarship support and mentorship.

- Employer training programs.
- Employer tuition assistance.
- Funding for scholarship support.
- Internships and mentoring programs.



Measuring affordability

College affordability has three major financial components:

Costs

Include tuition and fees, books, room and board, etc.

Financial Aid

The system by which some costs are reduced or waived, lowering total cost for recipients.

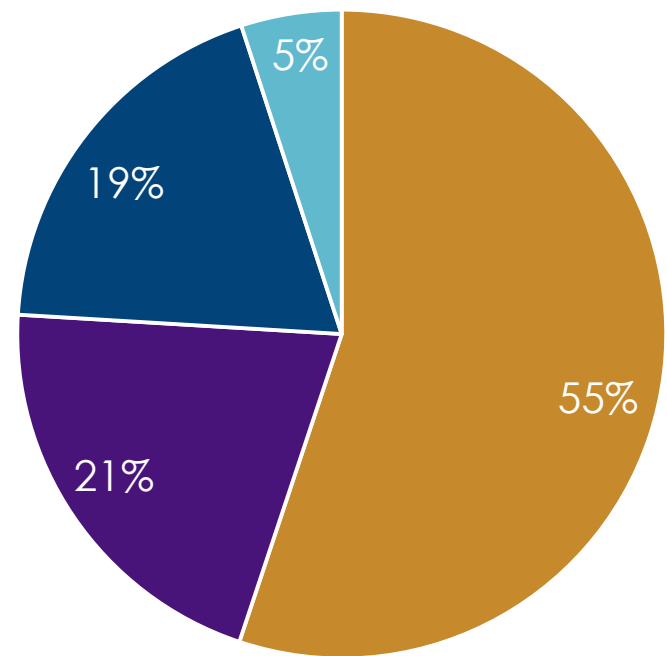
Student Options

Students have to decide how to pay for their net costs – the cost remaining after any aid is applied. They can work, borrow, attend part-time, choose different institutions, etc.



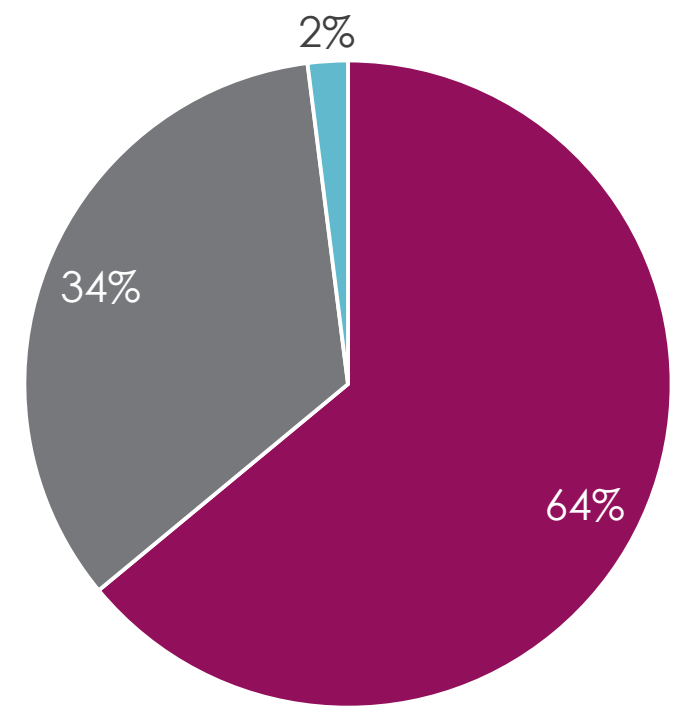
Nearly \$1.8 Billion in aid Provided to Students

2015-16 Total Aid by Source



■ Federal ■ State ■ Institutional ■ Private

2015-16 Total Aid by Type

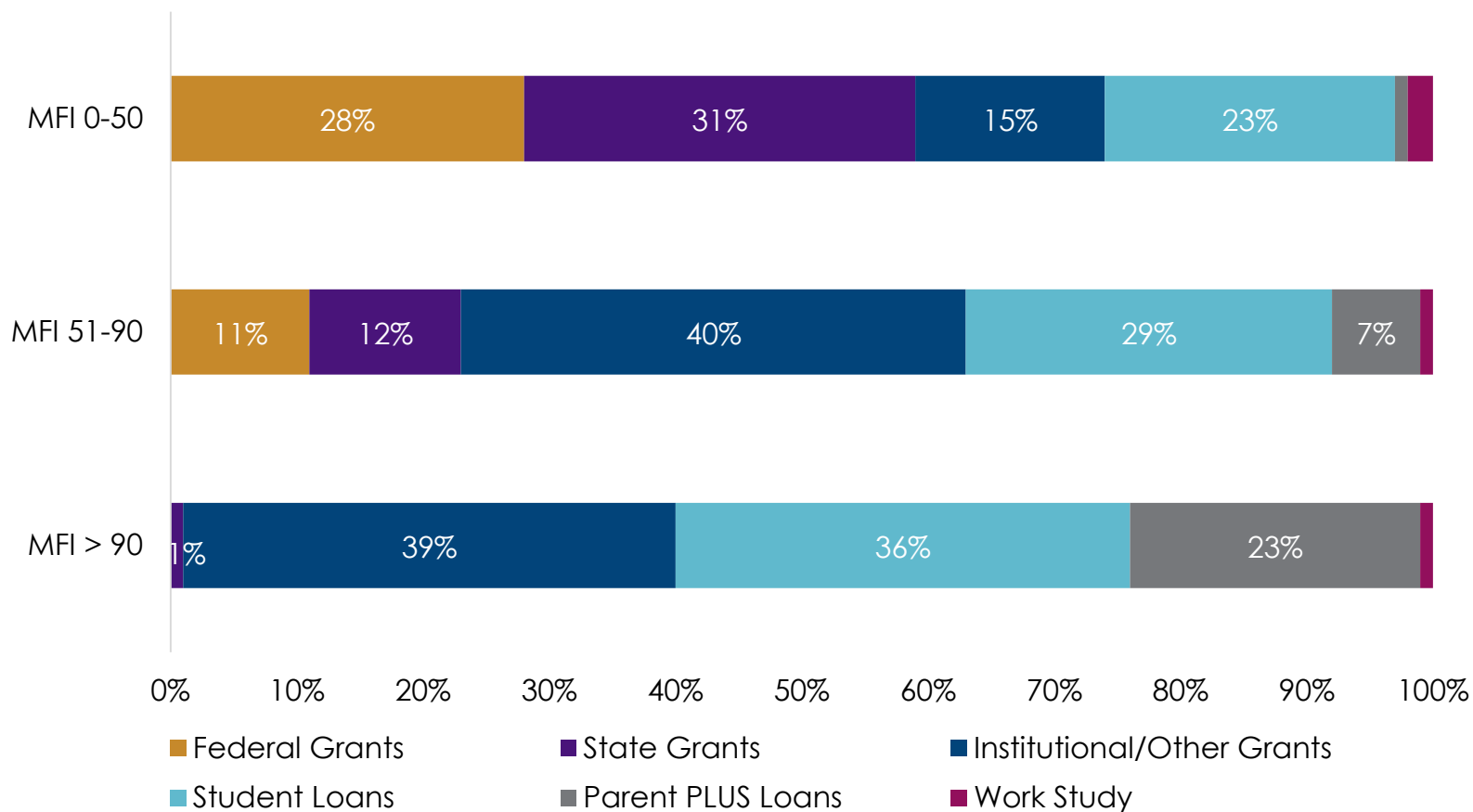


■ Grants/Scholarship ■ Loans ■ Work

Source: Washington Student Achievement Council. *Unit Record Report, 2015-16*. [WA resident undergraduate need-based recipients].



Financial Aid Type by Income



- Low-income students have financial gaps.
- Institutional aid supports middle income.
- Students are borrowing at all income levels.



Various Types of Aid Help Students Meet Costs

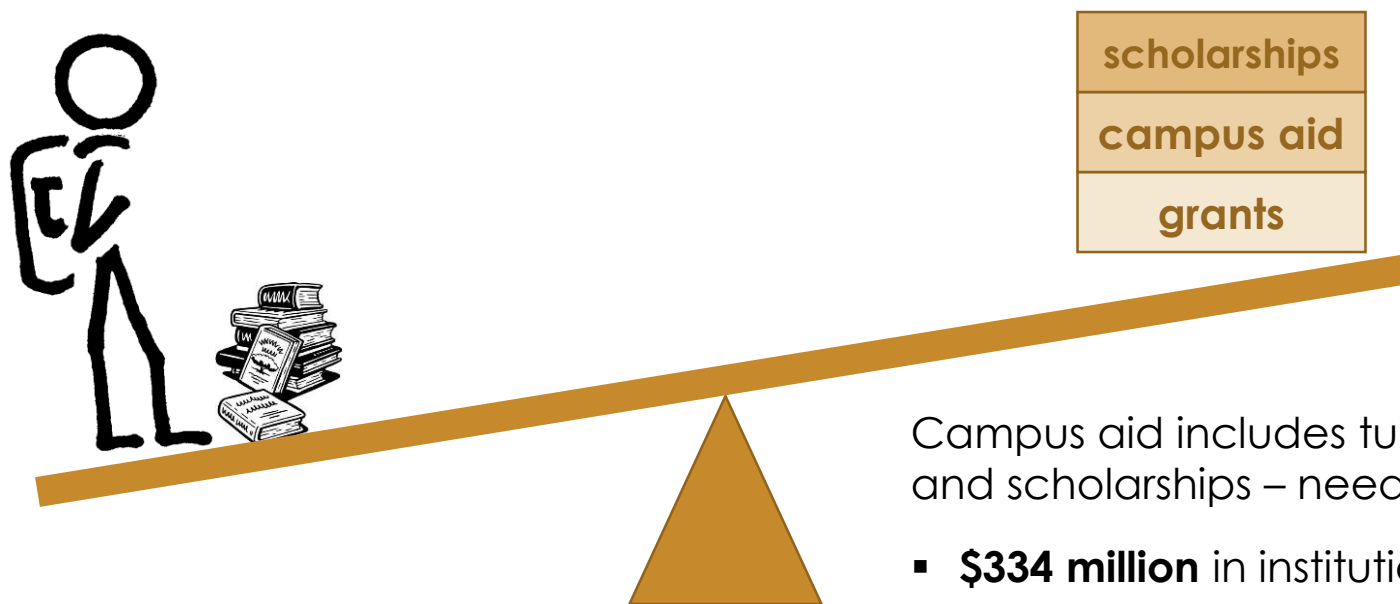


Sample Budget	\$21,800
Tuition	\$10,000
Books	\$800
Room/Board	\$7,600
Transportation	\$1,500
Personal	\$1,900

- **\$1.1 billion** in total grant funding
- **\$379 million** in Pell Grant to 102,300 students
- **\$370 million** in state grants to 82,900 students



Various Types of Aid Help Students Meet Costs

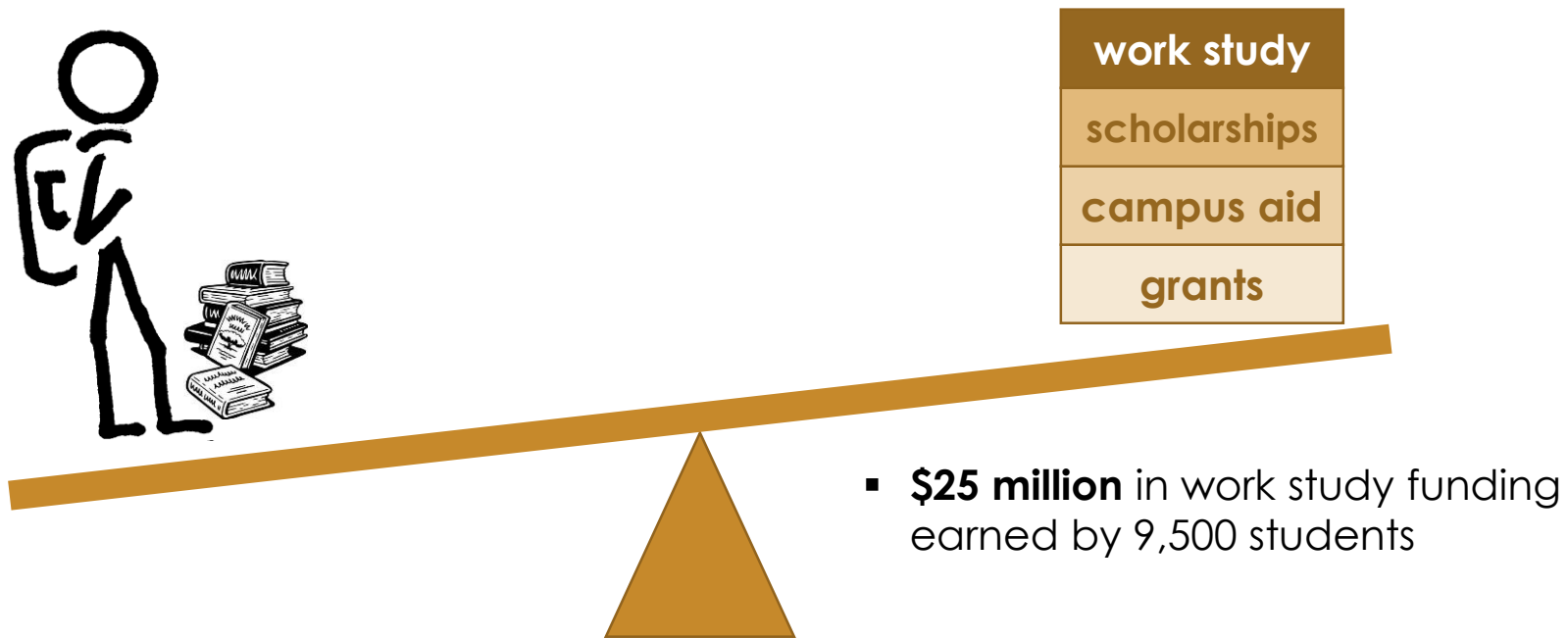


Campus aid includes tuition waivers, grants, and scholarships – need-based or merit.

- **\$334 million** in institutional aid provided to 61,800 students
- **\$55 million** in private scholarships (theWashboard.org)

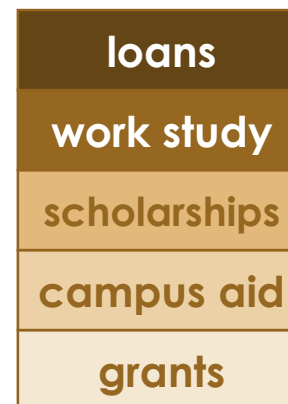
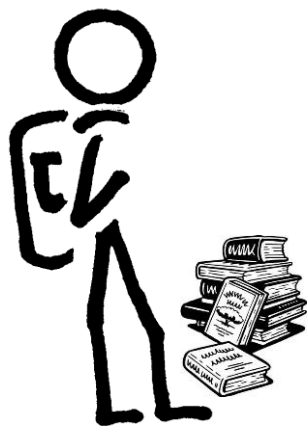


Various Types of Aid Help Students Meet Costs





Various Types of Aid Help Students Meet Costs



- **\$551** million in student loans to 86,400 undergraduate resident students last year



Debt in Washington

Borrowing over time

Differences by dependency status

Loan volume by type

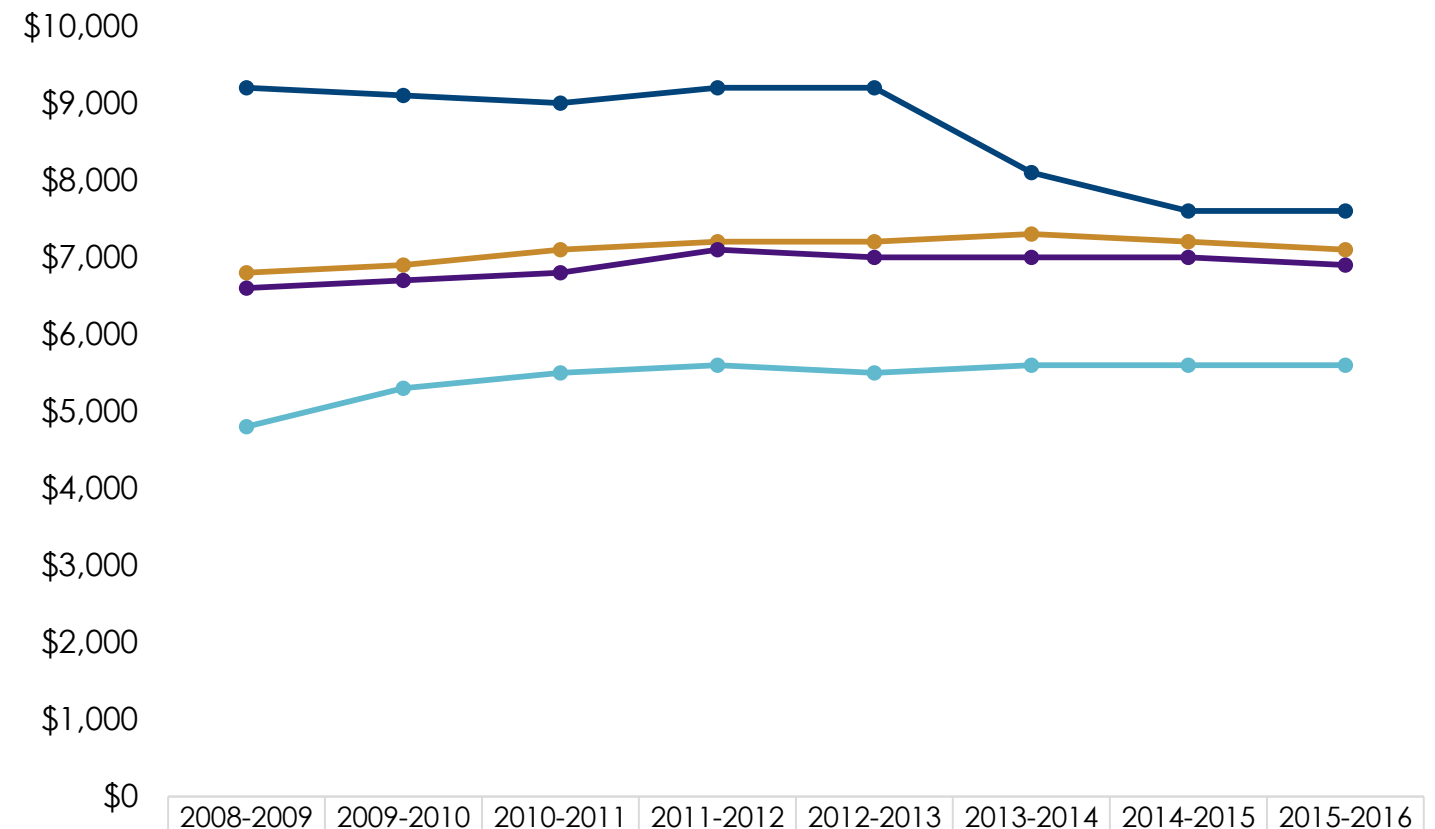
Total debt upon graduation

Default



Annual Student Borrowing by Sector Over Time

Annual borrowing increased somewhat at public institutions during the recession. Private averages decreased due to a change in participating institutions.

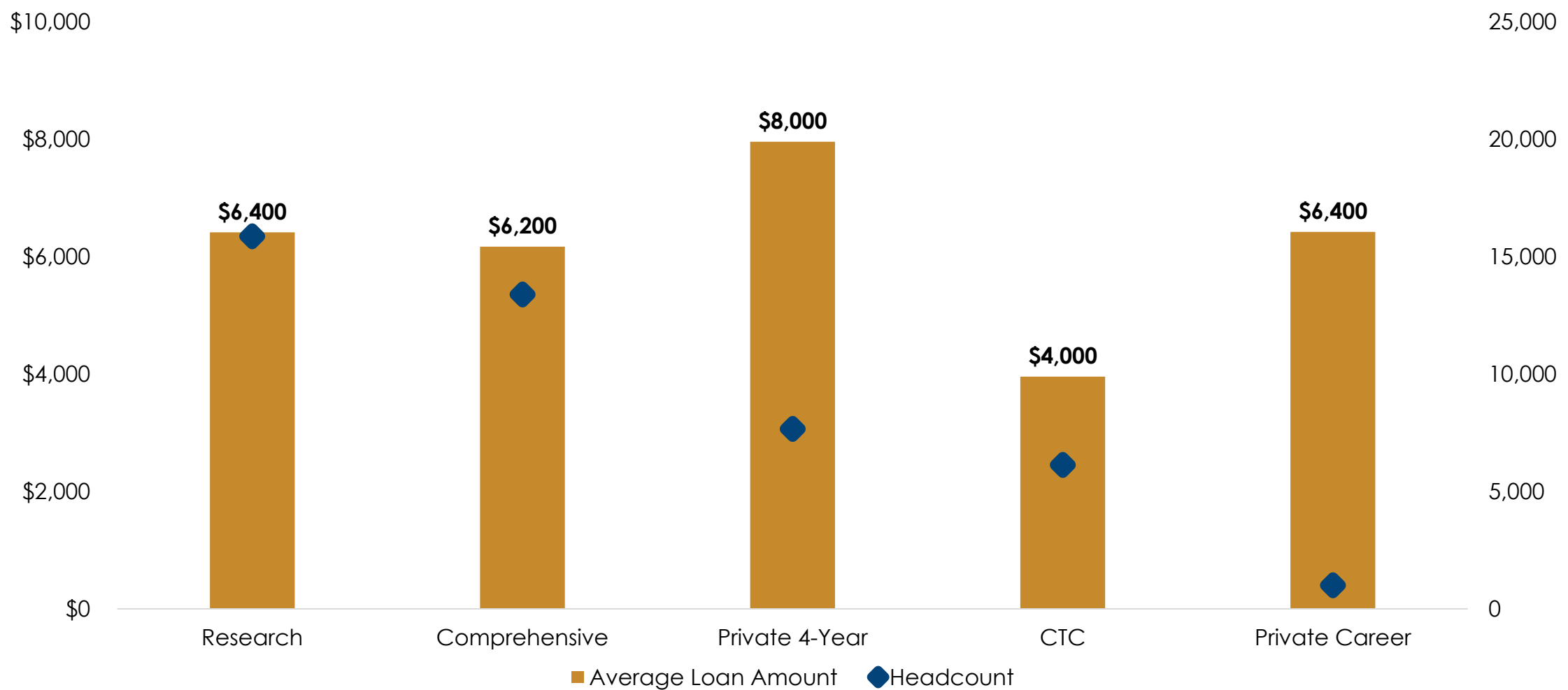


	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Research	\$6,800	\$6,900	\$7,100	\$7,200	\$7,200	\$7,300	\$7,200	\$7,100
Comprehensive	\$6,600	\$6,700	\$6,800	\$7,100	\$7,000	\$7,000	\$7,000	\$6,900
Private 4-Year	\$9,200	\$9,100	\$9,000	\$9,200	\$9,200	\$8,100	\$7,600	\$7,600
CTC	\$4,800	\$5,300	\$5,500	\$5,600	\$5,500	\$5,600	\$5,600	\$5,600

Source: Unit Record Report, Financial aid dataset submitted by 67 institutions. 2008-09 to 2015-16. Undergraduate, residents. All loans except PLUS. (CB17614 2/1/2017)



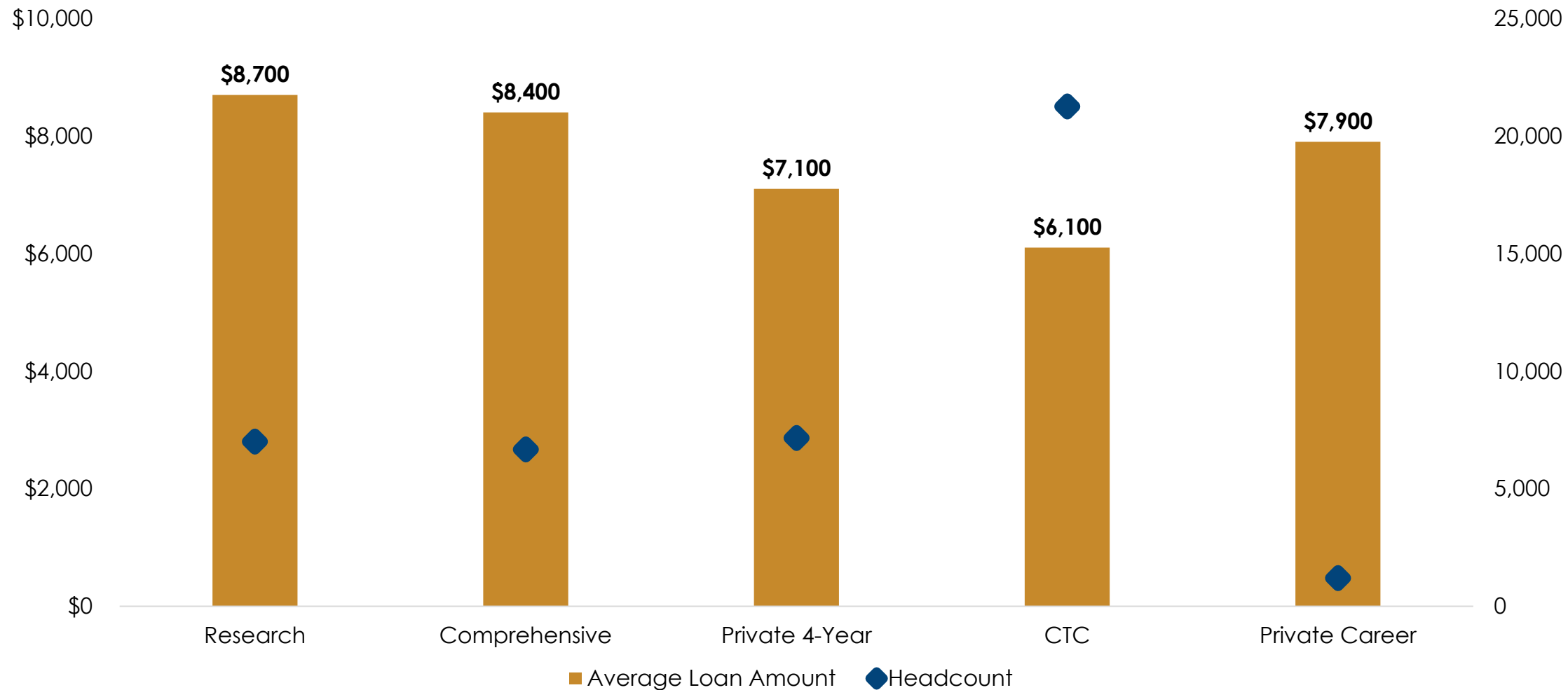
Annual Student Loans: Dependent Students 2015-16



Source: Unit Record Report, Financial aid dataset submitted by 67 institutions. 2015-16. Undergraduate, residents. All loans except PLUS. (CB17612 1/31/2017)



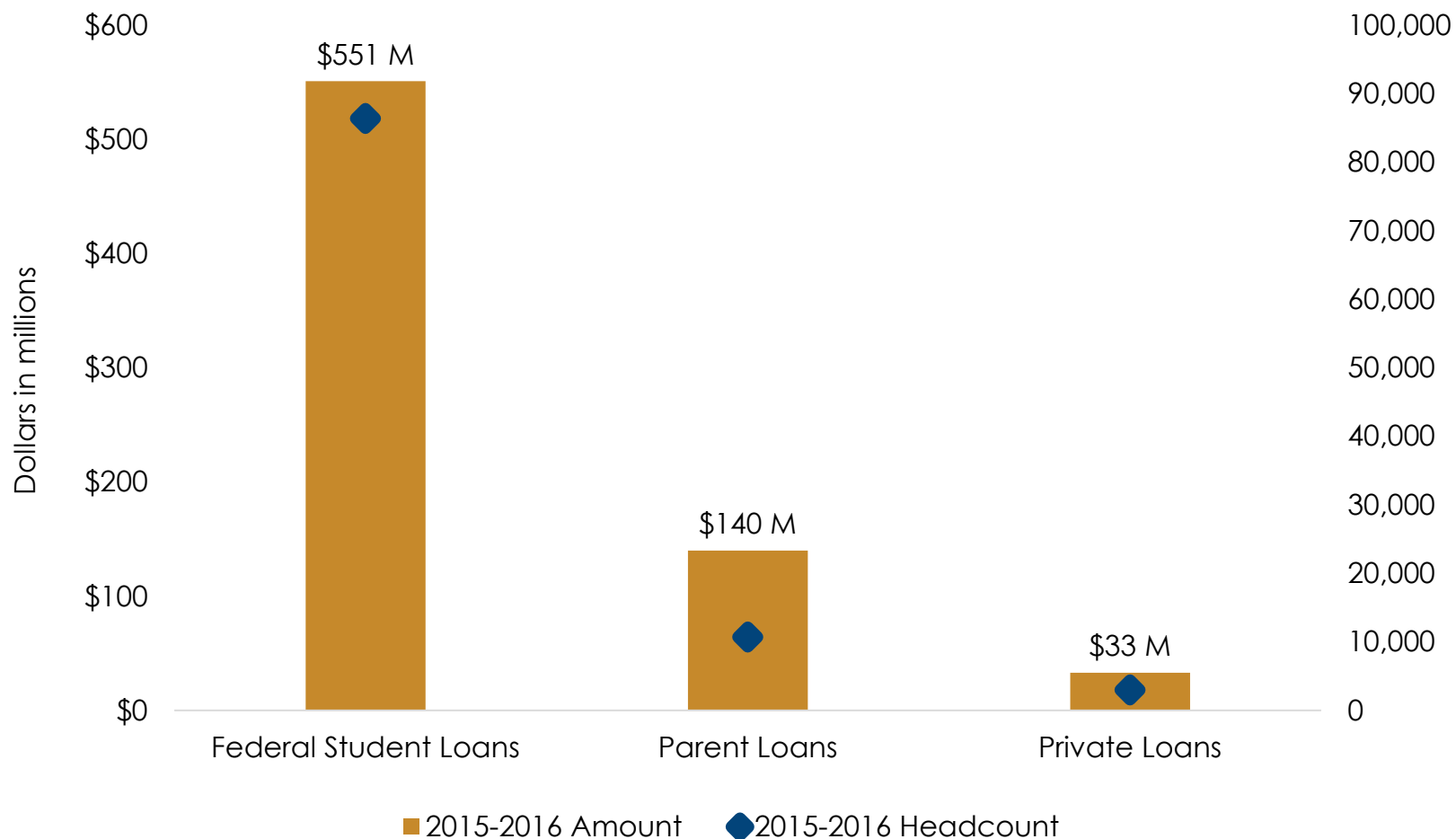
Annual Student Loans: Independent Students 2015-16



Source: Unit Record Report, Financial aid dataset submitted by 67 institutions. 2015-16. Undergraduate, residents. All loans except PLUS. (CB17612 1/31/2017)



Educational Loans

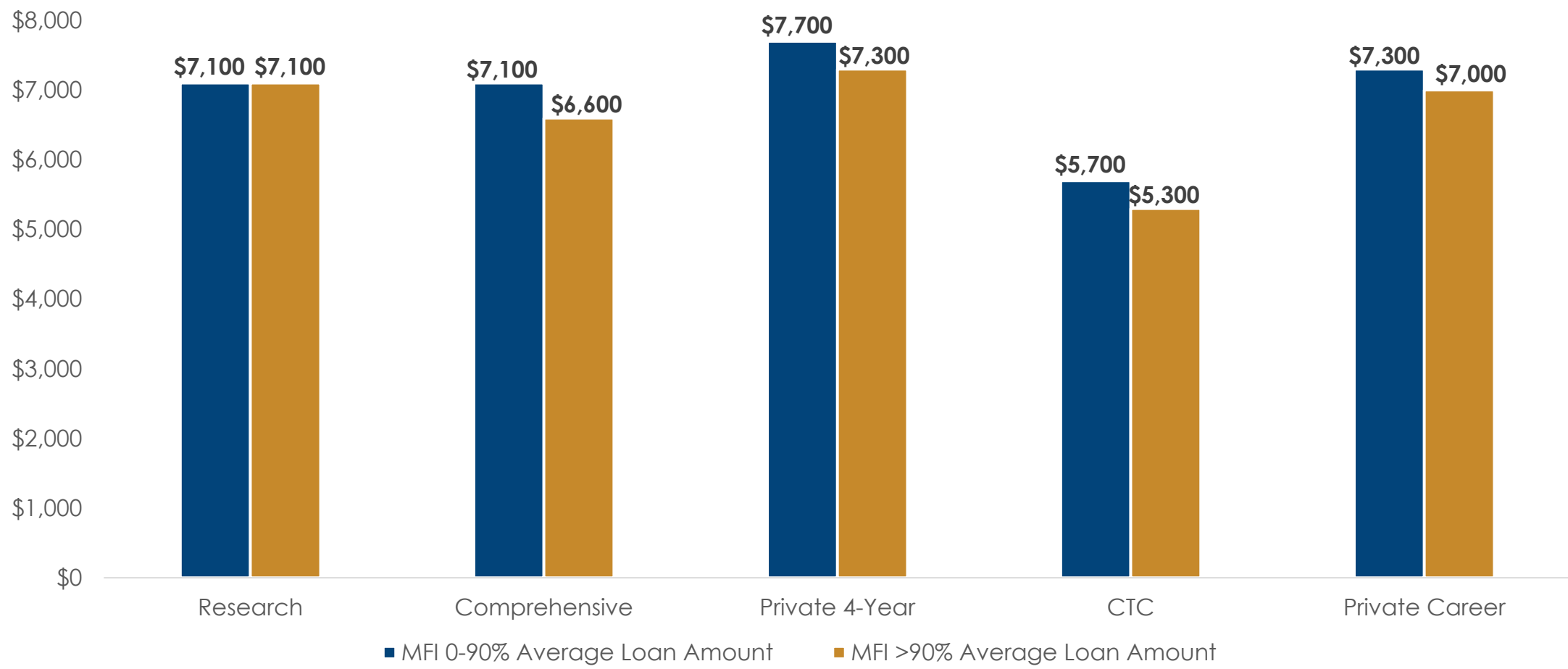


- \$450 million to 17,600 graduate students
- Average annual loan \$25,600 for graduate students



Student Debt by Income and Sector 2015-16

Average Loan Amount (excluding PLUS) by Median Family Income (MFI) and Sector



Source: Unit Record Report, Financial aid dataset submitted by 67 institutions. 2015-16. Undergraduate, residents by MFI. All loans except PLUS. (CB17622 2/1/2017)



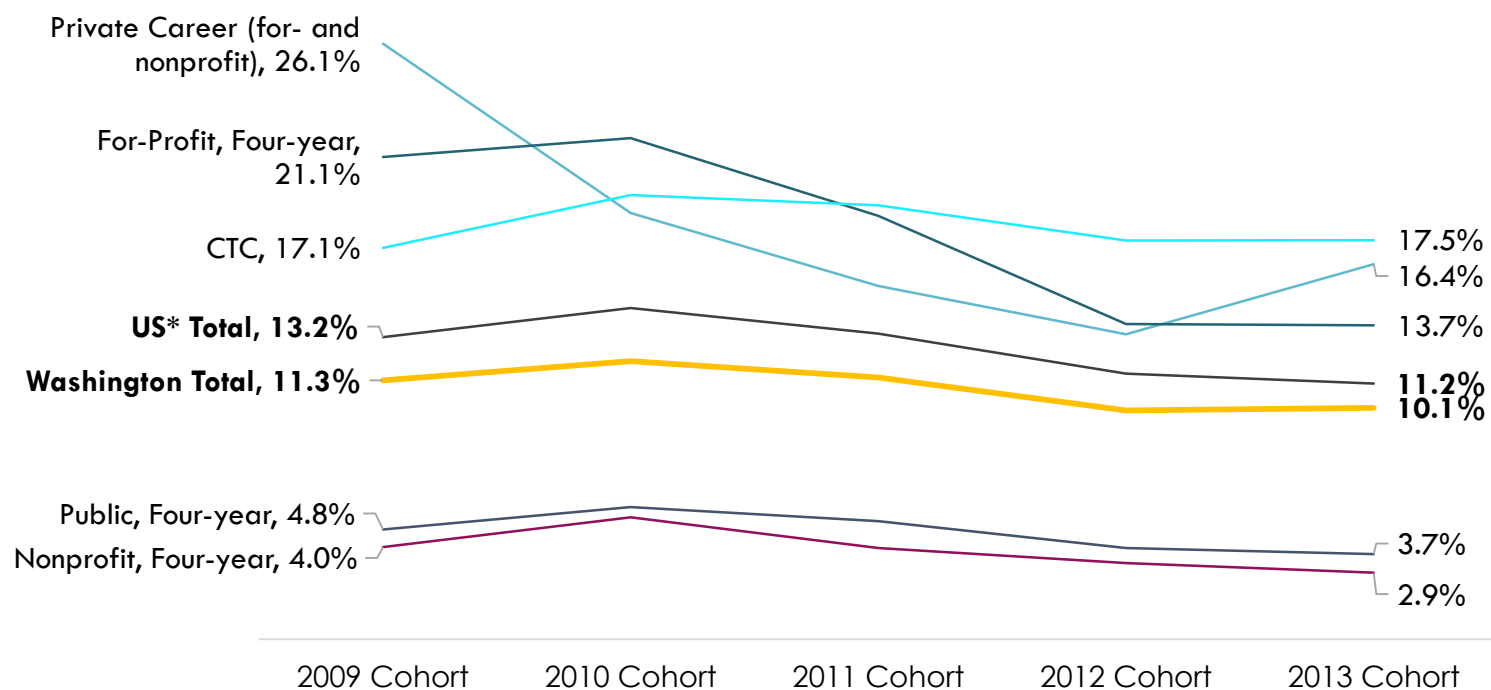
Total Student Debt by Sector

Student Debt by Sector (2015 Graduates)		
Institution Type	Average Debt (2015 graduates)	Proportion of Graduates with Debt (2015 graduates)
Research	\$22,715	50%
Comprehensive	\$23,569	60%
Private 4-year	\$29,213	68%
State Average Public + Private	\$24,600	57%



Cohort Default Rates in Washington

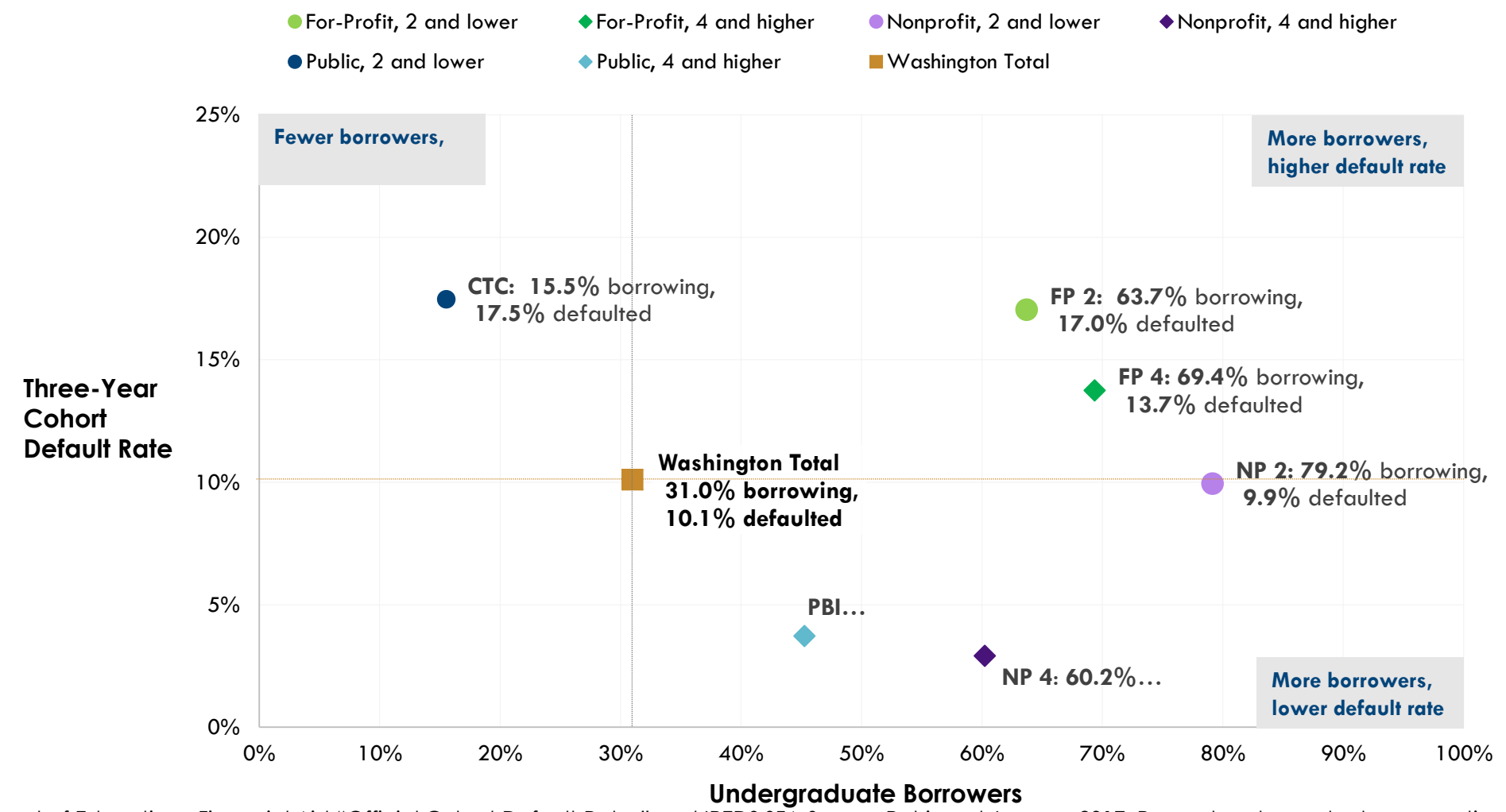
Three-Year Cohort Default Rates in Washington



- Default rates have come down and are below the national average.
- Rates vary by sector.
- Students with lower balances have higher defaults.



Borrowing and Default Rates Vary by Sector



Sources: U.S. Department of Education, Financial Aid "Official Cohort Default Rates" and IPEDS SFA Survey. Retrieved January 2017. Percent undergraduates accepting federal loans, 2012-31 average.



Policy Implications

Affordable debt

Role of savings

Middle income gaps



Student Loans: Opportunity vs. Burden

- Federal loans are **broadly accessible** and available at virtually every Title IV participating campus (the Seattle CC District and Centralia do not participate in Stafford loans).
- Federal loans require **entrance and exit counseling** to provide information regarding repayment obligation, benefits and consequences of delinquency.
- **Any student can borrow** through the Stafford loan program if they submit a valid FAFSA, regardless of income.
- Student loans appear to **combine with other aid**, or in isolation, help students confront rising costs.



Summary of borrowing trends in Washington

- Student borrowing **increased during the recession** but has flattened.
 - Annual borrowing increased at a **faster rate in the community colleges.**
- The **volume** of student loans and number of borrowers has **increased** over time.
 - However, **private loan borrowing has decreased** significantly due to changes in the credit market.
- Washington is considered a **“low debt” state** for cumulative debt upon graduation.
- Washington **default rates are below the national average.**

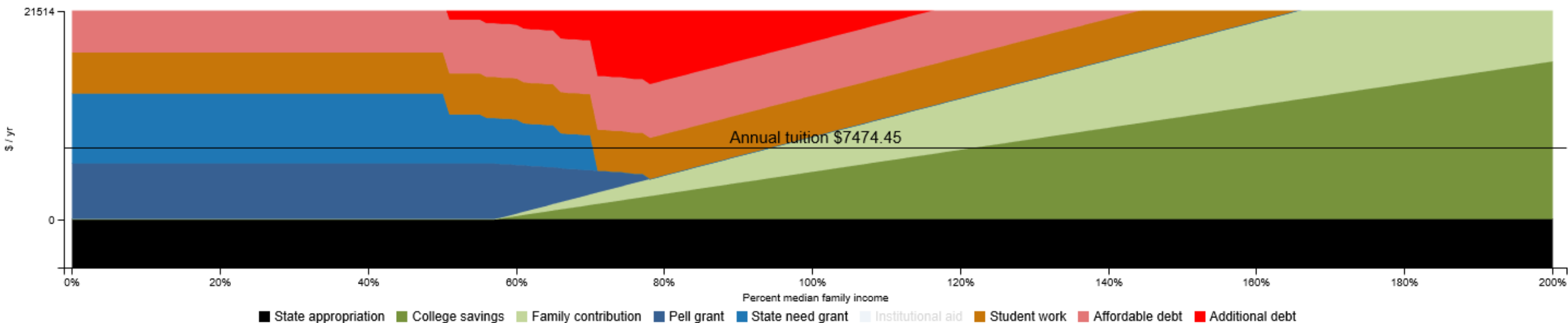


State Policy Considerations Related to Student Debt

- How should the **role of savings** be considered?
- **How much work** should be considered reasonable for students?
- Can **accelerated degree options** offset student debt?
- What are **affordability gaps** for middle-income students?
- What is a **reasonable amount of student debt** by income level and sector?



Affordable Debt Concept



“Affordable debt” assumptions

- No more than 10% of future annual earnings will repay the loan*
- Ten years of repayment at 5% interest

*For earnings at the 20th percentile of those with bachelor’s degrees in Washington.



Continue the Conversation

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