Understanding Borrowing in Washington

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Senate Higher Education
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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**
- Part of financial aid offer
  - Federal Direct
    - U.S. Dept. of Ed.
      - Unsubsidized
        - Do not have to demonstrate need
      - Subsidized
        - Undergraduate students with need
  - Perkins
    - School as lender
  - PLUS
    - Parents of undergraduate
  - Grad PLUS
    - Graduate students

**Private**
- Private lenders

**Washington**
- Target workforce shortage areas
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

<table>
<thead>
<tr>
<th>Year in School</th>
<th>Dependent</th>
<th>Independent</th>
<th>Subsidized Cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Year</td>
<td>$5,500</td>
<td>$9,500</td>
<td>$3,500</td>
</tr>
<tr>
<td>Second Year</td>
<td>$6,500</td>
<td>$10,500</td>
<td>$4,500</td>
</tr>
<tr>
<td>Third and Beyond (each year)</td>
<td>$7,500</td>
<td>$12,500</td>
<td>$5,500</td>
</tr>
<tr>
<td>Aggregate Limits</td>
<td>$31,000</td>
<td>$57,500</td>
<td>$23,000</td>
</tr>
</tbody>
</table>

#### PERKINS LOANS

<table>
<thead>
<tr>
<th></th>
<th>Annual</th>
<th>Aggregate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undergraduate</td>
<td>$5,500</td>
<td>$27,500</td>
</tr>
<tr>
<td>Graduate Student</td>
<td>$8,000</td>
<td>$60,000</td>
</tr>
</tbody>
</table>

- 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

Deferrals 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
• readysetgrad.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

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.
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.

Ensure affordable access to high-quality instruction through coordinated funding to public institutions.
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.
College affordability has three major financial components:

<table>
<thead>
<tr>
<th>Costs</th>
<th>Financial Aid</th>
<th>Student Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Include tuition and fees, books, room and board, etc.</td>
<td>The system by which some costs are reduced or waived, lowering total cost for recipients.</td>
<td>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.</td>
</tr>
</tbody>
</table>
Nearly $1.8 Billion in aid provided to students.

2015-16 Total Aid by Source
- Federal: 55%
- State: 19%
- Institutional: 21%
- Private: 5%

2015-16 Total Aid by Type
- Grants/Scholarship: 64%
- Loans: 34%
- Work: 2%

Financial Aid Type by Income

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

[WA resident undergraduate need-based recipients by Median Family Income (MFI).]
Various Types of Aid Help Students Meet Costs

- **$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

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

- $25 million in work study funding earned by 9,500 students

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.

Annual Student Borrowing by Sector Over Time

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Research</td>
<td>$6,800</td>
<td>$6,900</td>
<td>$7,100</td>
<td>$7,200</td>
<td>$7,200</td>
<td>$7,300</td>
<td>$7,200</td>
<td>$7,100</td>
</tr>
<tr>
<td>Comprehensive</td>
<td>$6,600</td>
<td>$6,700</td>
<td>$6,800</td>
<td>$7,100</td>
<td>$7,000</td>
<td>$7,000</td>
<td>$7,000</td>
<td>$6,900</td>
</tr>
<tr>
<td>Private 4-Year</td>
<td>$9,200</td>
<td>$9,100</td>
<td>$9,000</td>
<td>$9,200</td>
<td>$9,200</td>
<td>$8,100</td>
<td>$7,600</td>
<td>$7,600</td>
</tr>
<tr>
<td>CTC</td>
<td>$4,800</td>
<td>$5,300</td>
<td>$5,500</td>
<td>$5,600</td>
<td>$5,500</td>
<td>$5,600</td>
<td>$5,600</td>
<td>$5,600</td>
</tr>
</tbody>
</table>

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)
• $450 million to 17,600 graduate students
• Average annual loan $25,600 for graduate students

Source: Unit Record Report, Financial aid dataset submitted by 67 institutions. 2015-16. Loans by type to resident undergraduates. (CB17618 2/1/2017)
Student Debt by Income and Sector 2015-16

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

<table>
<thead>
<tr>
<th>Sector</th>
<th>MFI 0-90% Average Loan Amount</th>
<th>MFI &gt;90% Average Loan Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research</td>
<td>$7,100</td>
<td>$7,100</td>
</tr>
<tr>
<td>Comprehensive</td>
<td>$7,100</td>
<td>$6,600</td>
</tr>
<tr>
<td>Private 4-Year</td>
<td>$7,700</td>
<td>$7,300</td>
</tr>
<tr>
<td>CTC</td>
<td>$5,700</td>
<td>$5,300</td>
</tr>
<tr>
<td>Private Career</td>
<td>$7,300</td>
<td>$7,000</td>
</tr>
</tbody>
</table>

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)
## Student Debt by Sector (2015 Graduates)

<table>
<thead>
<tr>
<th>Institution Type</th>
<th>Average Debt (2015 graduates)</th>
<th>Proportion of Graduates with Debt (2015 graduates)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research</td>
<td>$22,715</td>
<td>50%</td>
</tr>
<tr>
<td>Comprehensive</td>
<td>$23,569</td>
<td>60%</td>
</tr>
<tr>
<td>Private 4-year</td>
<td>$29,213</td>
<td>68%</td>
</tr>
<tr>
<td>State Average Public + Private</td>
<td>$24,600</td>
<td>57%</td>
</tr>
</tbody>
</table>

Source: Project on Student Debt – Sector averages computed by WSAC for state aid participating institutions
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

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” 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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