Higher Education Loan Program Legislative Report

Finance and program design options

December 2012

Washington Student Achievement Council
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WASHINGTON
OPPORTUNITY PATHWAYS

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Table of Contents

List of Figures

Washington Student Achievement Council

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Executive Summary

The Higher Education Loan Program (HELP) was authorized in 2009, but not funded. The program structure outlined in statute provides flexible options to meet student loan needs. The 2012 operating budget requires the Washington Student Achievement Council to evaluate finance and program design options for the Legislature's consideration. The Council convened a workgroup of financial aid administrators and financial consultants to identify viable options and provide the decision variables for a state student loan program.

In addition to Washington's historical commitment to need-based financial aid programs, the state has several forgivable loans, loan repayment, and an Aerospace student loan programs, administered by the Council. Two viable options are provided to identify initial and ongoing funding to the HELP program: 1) sell Lottery-backed revenue bonds and 2) work with private lenders to issue student loans with a state guarantee of loss coverage.

About 20 states were surveyed to identify program design features for the HELP program including options for interest rates, repayment terms, default risk management, and borrower benefits.

The workgroup identified various student populations with gaps in their financing needs, without prioritizing a particular group. Annual borrowing in the federal programs has been increasing, particularly for low-income students. Yet upper income students borrow more and are often limited to federal loans. Dependent students have lower federal loan caps which often are not sufficient to cover tuition. Students not served by the State Need Grant tend to borrow more in the federal loan programs. Overall, there are several benefits to students a state loan program could provide.

The report begins with some background information followed by the options for initial and ongoing funding for the HELP program and reserve requirements. Next, program design components are included including interest rates and default risks. A needs assessment outlines potential populations who would benefit from a state loan program and including the State Need Grant eligible population, and outlines the benefits HELP could provide. Administrative considerations are provided should HELP be funded, followed by an overview of federal and private student loans.

I. Background

Chapter I Background Highlights

- Higher Education Loan Program (HELP) authorized in 2009, but not funded.
- HELP provides flexible options to meet student loan needs.
- Washington has 40-year commitment to need-based aid.
- Council already administers forgivable loan and repayment programs, as well as an Aerospace student loan.
- Washington Higher Education Facilities Authority (WHEFA) authorized to issue bonds to originate student loans.

The Higher Education Loan Program (HELP) was authorized during the 2009 Legislative session (RCW 98B.97) (see Appendix A). HELP is intended to provide low-cost loans and related loan benefits to eligible Washington students pursuing degrees while avoiding duplication with available federal loan programs. The program provides flexibility in the type of student loan options available:

- Issuing low-interest educational loans to resident students;
- Providing targeted loan-repayment for students meeting certain criteria;
- Reducing interest rates for existing loans;
- Developing conditional loans to be forgiven in exchange for service; and/or
- Creating an emergency loan to assist students until other state and federal funding is secured.

The Washington Student Achievement Council would administer the HELP program and conduct a needs assessment to target benefits to students in need of low-cost loans. However, amidst current budgetary challenges, neither the original bill nor subsequent legislation specified a funding mechanism for HELP. To date, no appropriations have been made to fund the program.

In order to better determine market feasibility and to examine state level customization options prior to funding, the 2012 operating budget (HB 2127) directed the Council to convene a work group to develop methods for funding the loan program and recommend the best loan program structure to provide aid to underserved students (see Appendix A). The proviso noted the recommendations must take into account:

- Sources of initial and ongoing funding for loans and program operation;
- Mechanisms to achieve low interest rates;
- Reserve and other requirements;
- Default risks,
- The relationship between HELP and the State Need Grant program; and
- Whether students could benefit from a new student loan program.

A workgroup of financial aid administrators, higher education stakeholders, and content experts was convened to develop this report (see Appendix B). The Housing Finance Commission, Office of the State Treasurer, and Washington Higher Education Facilities Authority provided consultation to the report.

The Northwest Education Loan Association (NELA) was contracted to contribute to the report development. NELA has served as the state's designated loan guarantor in the federal loan program and has experience in originating and servicing student loans. In addition, Lyle Jacobsen, former director of the Office of Financial Management, provided assistance with the evaluation of finance options. See Appendix C for the experience of NELA and Mr. Jacobsen.

WASHINGTON STUDENT FINANCIAL AID

There is little doubt that the Great Recession that began in late 2007 has had profound and far reaching impacts on the higher education system in Washington. With demand surging as resources decline and tuition increases, policymakers continue to face unprecedented challenges in maintaining access and affordability levels necessary to produce enough college graduates to sustain future economic growth.

Despite the challenges, the state has a longstanding commitment to provide opportunities for postsecondary education to all students, regardless of income. As one of the nation's most consistently generous states in terms of state-based financial aid, Washington legislators appropriated more than $300 million to serve over 72,000 needy students in 2012-13 with the State Need Grant (SNG) program. The state also supports a work study program and the College Bound Scholarship, an early commitment scholarship for students from low-income families.

HELP permits a conditional scholarship or loan repayment as a program design option, as well as a traditional student loan option. Washington already provides several targeted workforce programs, including conditional scholarships, loan repayment programs, and a traditional loan as described in Appendix D.

Despite the availability of other forms of financial aid, many students need to borrow to help offset the rising costs of higher education. Student loans have been the subject of many media articles (see Appendix E).

WHEFA AUTHORITY TO ISSUE BONDS FOR STUDENT LOANS

In 2004 the Student Loan Finance Association (SLFA) discontinued issuing bonds for student loans in Washington. During the 2007 legislative session, the Washington legislature gave WHEFA authority to issue taxable and tax-exempt bonds for the purpose of acquiring or originating student loans (RCW 28B.07).

In late 2007, two events occurred that impeded the ability of WHEFA to issue student loan revenue bonds and originate and purchase Federal Family Education loans. First, market factors unrelated to student loan financing ended the auction rate security market, the vehicle through which most student loan bonds were issued. Second, federal legislation passed in 2010 which resulted in the federal government making the federal Stafford student loan program a direct loan program administered through the federal Department of Education, rather than through private financial institutions.

To date, no significant new market for issuing student loans has developed. The ability to successfully issue student loan bonds now depends on the bonds having a security backing by a state guarantee, or if the issuer is large enough, the transaction must include a significant reserve fund. WHEFA does not have the resources to provide a reserve fund and the state to date has not elected to provide a guaranty. WHEFA continues to research and monitor the student loan bond market to see if a new opportunity or program develops.

II. HELP Program Financing Options

Chapter II Financing Options Highlights

- Fiscal consultants identified two viable options to provide initial and ongoing funding to the HELP program.
    1. Sell Lottery-backed revenue bonds.
        - Several states have sold revenue bonds to support student loan programs.
        - $50 to $100 million in bonds with debt service between $3 and $6 million would allow $5,000 loans to 10 to 20,000 students.
        - Program would be self-sustaining in about five years.
    2. Work with private lenders with a state guarantee of loss coverage.
        - A state loan loss reserve program could encourage lender participation.
        - A default rate of 5% and additional reserve of 3% and a projected volume of $250 million would be funded at $20 million.
- North Dakota has established a state bank that provides funding for a loan program.

Washington is evaluating a viable source of funding and the appropriate program design to develop a state higher education student loan program. The level of funding required depends on a variety of factors explored in *Chapter III – HELP Program Design Options*.

As a result of research for this report and consultation with finance experts, two options could provide critical funding for the HELP student loan program. First, the selling of revenue bonds appears to be the most viable finance option for support to the HELP program. The ability to market, sell, and issue such bonds depends on the backing of the full faith and credit of the State or a dedicated stable revenue source. Second, the encouragement of private student loans from credible financial institutions that could be backed by the state would improve loan availability for students.

SELLING OF REVENUE BONDS AND USE OF LOTTERY FUNDS

Many States use revenue bonds to support their student loan program (Alaska, New Jersey, Hawaii, Minnesota, and Texas). Minnesota just completed a $375 million bond sale to support their student loan program called SELF. It provided $85 million of student loans for 14,000 students this past year. SELF has no minimum or maximum income thresholds and no application fees for the loan program, but students pay interest on the loan while in school.

Texas, as another example, uses revenue bonds to fund their two loan programs, the College Access Loan (CAL) and the Health Education Loan Program (HELP).

Lottery funds previously used for Safeco Field bond retirement could be dedicated to provide a stable revenue source to the HELP program. The funds used to provide this backing would only be needed during initial start-up as debt service would be paid by investment earnings and loans repaid by the student borrowers.

RESERVE REQUIREMENTS FOR REVENUE BOND OPTION

Revenue bonds of $50 to $100 million could be issued with annual debt service amounts of between $3 and $6 million depending on maturity and size. Lottery backed revenue bonds can be structured to receive excellent ratings from the rating agencies similar to what the state receives on their general obligation bonds. A program of this type could provide student loan amounts of about $5,000 per year for 10,000 to 20,000 students after the program has matured. There are a variety of decisions that need to be made related to the program infrastructure that are addressed in the *Chapter III – HELP Program Design Options*.

As the loan program matures in approximately five years, these lottery funds could be phased out and fully dedicated to the other financial aid programs of the Washington opportunity pathways account.

These bonds could be issued by WHEFA, with certain changes in their statute to allow the use of backing by lottery funds, or by the state finance committee. In addition, to enable funds to be used for this purpose, amendments would be needed in the HELP statute RCW 28B.97 as well as the Opportunity Pathways account statute RCW 28B.76.

PRIVATE STUDENT LOANS BACKED BY THE STATE

Another option would be to encourage private student loans from credible financial institutions. Currently most financial institutions in the state provide little or no student loans.

Two credit unions in the state (BECU and GESA Credit Union) participate with other credit unions throughout the country in the Credit Union Student Choice program. This highly successful program has the infrastructure in place to originate the loan as well as service the loan. These state credit unions currently issue more that $50 million in student loans to more than 2,400 students. All loans must be co-signed which enables the default rate to be very low.

However, state and federal regulators continue to review possible over commitment of certain kinds of loans, so the capacity to increase the number of private student loans does not continue to increase. Washington could encourage and get involved in the private student loan program by acting as a guarantor to the state financial institutions that make these student loans. The structure could be very similar to how the U.S. Small Business Administration (SBA) loan guarantee program works.

SBA does not make loans itself, but guarantees loans made by financial institutions. In this way, taxpayer funds are only used in the event of a borrower default. This reduces the risk to the lender but not to the borrower. To offset the costs of its loan programs to the taxpayer, SBA charges lenders a guaranty fee and a servicing fee for each loan approved and disbursed. The amount of the fees is based on the guaranty portion of the loans.

Washington State could set up a similar guarantee private student loan program modeled after the federal SBA program. The State could set up a Loan Loss Reserve Fund (LLRF) that would enable financial institutions to grant student loans with a state guarantee of loss coverage that could range anywhere from 50 percent to 100 percent of the loan amount.

This approach would allow the financial institutions to decide what level of risk they are willing to accept. The percent of coverage would be based on a fee paid per loan to the LLRF; the higher the fee the higher the coverage. The financial institutions could also be charged an initial participation fee to be in the state student loan guarantee program. These fees could help to fund the account and the administration of the program. The formula for funding LLRF would be based on anticipated loss rates on projected statewide volumes, plus a reserve amount. The amount needed for a LLRF would encourage and support a much larger volume of new private student loans than if the State were to act as a direct lender using the same investment amount.

RESERVE REQUIREMENT FOR STATE BACKED PRIVATE LOANS

If a default loss rate is assumed to be five percent and an additional reserve amount of three percent is included, a total of eight percent would be needed for funding of the LLRF. Therefore, if projected volume were $250 million, the LLRF would be funded at $20 million. If a loan loss rate (default rate) of 8 percent were assumed, the number of student loans could be leveraged by a ratio of more than 12 to 1.

VIABILITY OF TWO OPTIONS

Each option must be weighed against what the state can afford in challenging economic times. The selling of revenue bonds is the most straight forward approach when stable revenue backing such as lottery funds exists. If, however, financial institutions can be encouraged to provide more student loans via a loan loss reserve program, then this would likely serve as the most affordable option for the state. The challenge would be whether a significant number of financial institutions could be encouraged to participate.

ESTABLISHMENT OF A STATE BANK FOR STUDENT LOAN FINANCING

Only one state, North Dakota, has a State Bank (BND) which provides funding for a student loan program. This program is the Dakota Education Alternative Loan and is funded by the BND (see Appendix F). Several states have been investigating the establishment of a state bank, but no state has found it viable due to the economy.

III. HELP Program Design Options

Chapter III Program Design Highlights

- About 20 states offer student loan programs to complement federal programs.
- Interest rates for state programs are generally below 8%.
- States generally require a minimum credit score or a co-signer to minimize default risks.
- Several decisions would need to be made that balance benefits to students with program sustainability (i.e. repayment terms, borrower benefits).
- Federal and state regulations will need to be monitored for compliance.

There are approximately 20 states who offer supplemental programs to assist students in their pursuit of higher education. These states were surveyed to identify the key program design options that would need to be considered for the HELP program. A summary table of the survey is available upon request.

Supplemental state loan programs offer an alternative for those students and their families who do not typically qualify for many financial aid programs, but who are without adequate cash reserves to pay for a college education. Supplemental programs exist to bridge the gap between the full cost of a higher education and traditional financial aid resources.

A new Washington State backed education loan program that supplements other federally backed programs could provide a lower-rate option for families when compared with parent PLUS loans. To increase the likelihood of repayment, loans would likely be credit-based. The various additional decision points related to the terms and conditions of the HELP program are included in Appendix G.

INTEREST RATES

The interest rates currently offered by private lenders vary depending on credit and a variety of other factors. Private student loan programs interest rates are currently running as low as 2.92 to 13.79 percent for a minimum range and as high as 19 to 25 percent at a maximum. By comparison, the federal parent PLUS loan is credit-based and offers a 7.9 percent fixed rate with a 4 percent origination fee.

State programs generally offer both a fixed and variable rate based on varying individual or combined factors that include: loan repayment term selected, credit score, loan status (in-school, deferment, forbearance, repayment), and/or graduates on time based on degree or certificate program length. Other factors would include the reserves required, default rates, and the backing of the full faith and credit of the State. Current interest rates posted for the participating states range from zero up to 8.8 percent.

Texas is the only state that offers a no interest rate for their Texas "B on Time Loan Program" where students are encouraged to complete their degree or certificate program on time. If successful, they are only required to pay back the principle. Further they are offered the possibility of forgiveness on the outstanding principle if they meet certain criteria.

Lenders typically use LIBOR (London Interbank Offered Rate – the primary benchmark for short-term interest rates) and prime rate to govern interest rates for supplemental student loans. For undergraduates and their co-signers who have extremely high credit scores, some lenders are now offering fixed rates that appear to compete with Stafford rates. Otherwise, less creditworthy borrowers are offered higher fixed rates than Stafford loans offer. However, state-affiliated lenders in general offer a single, fixed rate based on the loan repayment term selected, credit score, or other factors.

Washington will need to determine whether the HELP program will support a fixed, variable or combination of using both options along with the determining how the rate coincides with our funding model to secure longevity for the program while remaining competitive in the market.

DEFAULT RISK - CREDIT SCORING AND CO-SIGNERS

A credit score is one of the most effective means to determine an applicant's credit worthiness. However, younger students often do not have a credit history. As such, programs typically factor a credit score based on the co-signer's credit worthiness. Research of other state loan programs have revealed that there are restrictions as to how old the co-signer must be and that credit scores of those co-signers range generally from 575 – 700.

The HELP program would need to determine the score level(s) to estimate the borrower's ability to repay the loan. The qualifications of the applicant or co-signer would need to be determined such as:

- No credit bureau balances discharged through bankruptcy;
- No garnishments, attachments, foreclosures, or repossessions;
- No more than a minimum amount of combined unsatisfied credit; and
- No more than a minimum percent of credit bureau balances past due.

Although the new program would likely require a mandatory cosigner, the program could offer a cosigner release option after the student has proved successful in early loan repayment. The cosigner release option provides a benefit for a parent not interested in securing long-term debt in his/her name for a student (e.g., a PLUS loan) and helps students establish credit in their own names.

LENGTH OF REPAYMENT

The most common repayment terms include – making payments immediately, interest only or deferring payments. Maine is the only state who seems to subsidize the loan while the students are attending school and performing their internship.

- **Immediate repayment** – Make monthly payments of both principal and interest while enrolled in school, followed by up to ten years (120 months) to repay the remaining balance.
- **Interest-only repayment** – Make monthly payments of accrued interest while enrolled in school and during grace, followed by up to ten years (120 months) to repay remaining balance after the grace period.
- **Deferred repayment** – No payments due until six months after graduation. Interest will be charged and added to the balance, followed by up to ten years (120 months) to repay the balance.

Generally the length of repayment for other state based loan programs is from 10 to15 years although the North Dakota program offers 25 years for extenuating circumstances. In order to provide a student sufficient time to transition into the workforce, most loan programs typically offer students a grace period. Generally six months is the standard following graduation, dropping to less than half-time enrollment, or withdrawal from the student's institution.

Washington could also allow early pre-payment without penalty. HELP could also consider offering student borrowers multiple repayment options as is feasible to manage and competitively operate the program (see *Student Benefits Available Through federal loan programs* section in *Chapter VI - Federal and Private Student Loan Overview*).

DEFERMENTS AND FORBEARANCE

A student borrower may experience some difficulties for a temporary period during repayment for which considerations of cessation of payment could be granted. Allowing repayment benefits and options will lead to better repayment patterns and minimize delinquencies.

There are typically two types of overarching assistance Washington should consider to help students, either a deferment or forbearance. Both allow borrowers to temporarily stop making loan payments; however, interest continues to accrue on the unpaid principal balance.

Some acceptable "conditions" for Washington to consider for deferment include:

- Re-enrollment or current enrollment in school at least a half-time,
- Active military service, or
- Economic hardship.

Forbearances can be made available if students do not qualify for a deferment or experience economic hardship for up to three years with documentation of financial hardship provided every three months.

TRUTH IN LENDING REGULATIONS

The federal Truth-In-Lending Act (TILA) changed the regulations necessary for borrowers to receive private educational loans in 2010. The purpose of this regulation is to inform consumers about credit by requiring disclosures about its terms and costs. The regulation also provides consumers the right to cancel certain credit transactions and practices of creditors who extend private education loans. A broad overview of the requirements is provided in Appendix H.

IV. Student Financial Needs Assessment

Chapter IV Student Needs Highlights

- Student loans represent 50% of the $2.4 billion offered to Washington needy students.
- Over 98,000 resident undergraduate students borrowed student loans in 2010-11.
- Annual borrowing continues to increase with higher rates of increase in the community and technical college sector and for low-income students.
- Over half of State Need Grant students borrow on average over $7,000.
- A variety of student populations could be targeted with HELP
    - Lower income students have higher amounts of unmet need (need not covered by aid).
    - Upper income students borrow more and are often limited to federal loans.
    - Dependent students are limited by federal loan caps which often do not cover tuition.
    - Students not served by State Need Grant.
- Students could benefit from a targeted state loan program.

There are many groups of students which have financial needs that could be targeted by the HELP state student loan program. The HELP proviso also requires the report specifically address the relationship between the HELP loan program and the State Need Grant eligible population. The workgroup did not recommend which population of students should be targeted by the HELP program, but has included the various financial gaps based on financial aid data.

In 2010-11, a total of $2.4 billion was provided to about 186,800 needy Washington students from state, federal, and other sources. (The term *needy* is used in this context to refer to students receiving "need-based" aid. If a student's expected financial contribution from their family is less than their total cost of attendance (tuition, room and board, transportation, etc.), they are eligible for need-based aid.)

Total aid disbursed was in the form of grants, work study, and loans (see Figure 1 and 2). About 70 percent of federal aid and 50 percent of total aid was in the form of loans. State aid accounted for 11 percent of the total aid. This included $232 million disbursed through programs administered by the Council, consisting primarily of the State Need Grant program.

Figure 1
Financial Aid by Source 2010-11

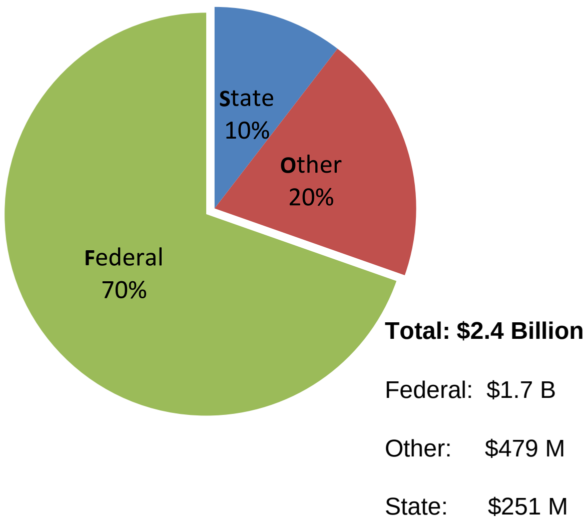
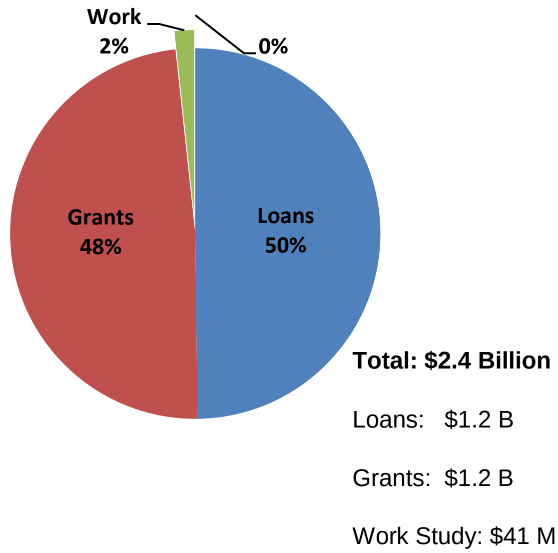


Figure 2
Financial Aid by Type 2010-11



Source: The 2010-11 Unit Record Report includes all aid received by students eligible for need-based aid at state aid institutions.

BORROWING DIFFERENCES BY SECTOR, INCOME AND DEPENDENCY STATUS

About 85 percent of all the resident undergraduate borrowers also received need-based aid. The average loan amount incurred by non-needy students was slightly higher than for need-based recipients, $9,600 versus $7,700 respectively (Figure 3).

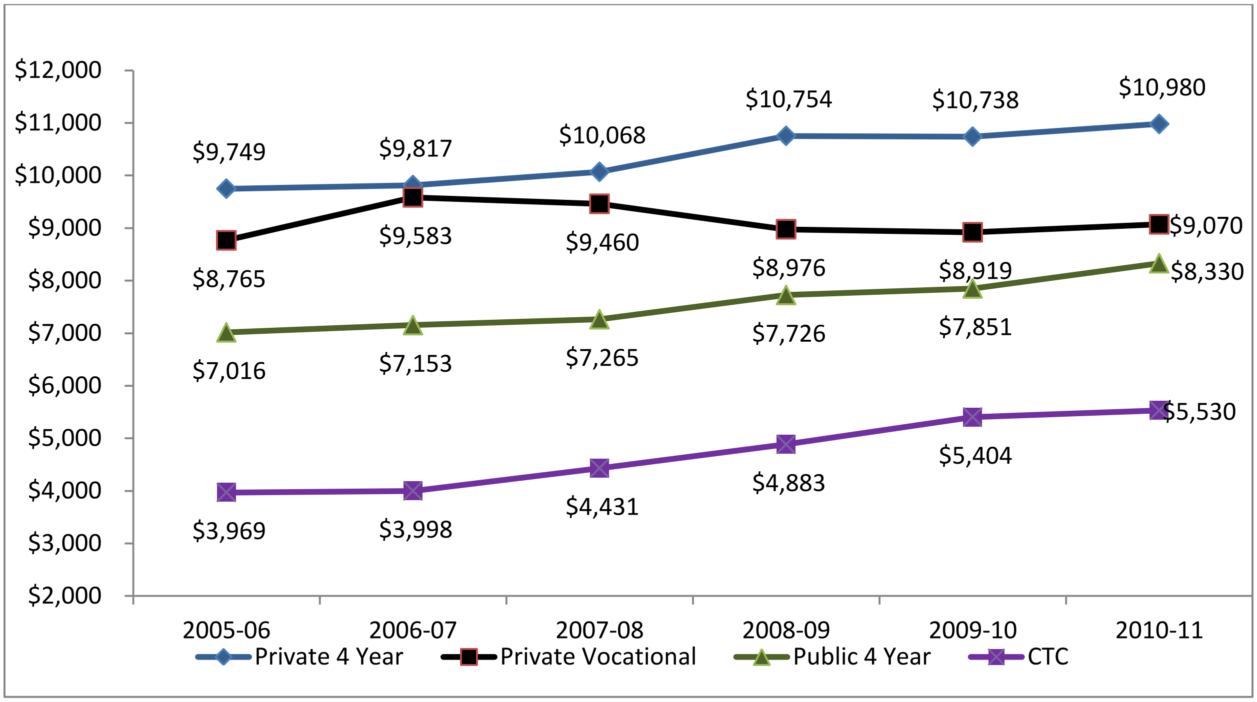
Figure 3: Annual Student Loan Debt 2010-11 Resident Undergraduates

Sector	Need-Based Aid Recipients with Loans	Average Annual Loan	Non Need-Based Loan Recipients	Average Annual Loan
Four-Year Public	35,650	$8,342	7,974	$11,221
Two-Year Public	33,685	$5,528	3,481	$4,958
Four-Year Private	10,126	$10,984	1,376	$11,112
Private Career	6,260	$9,072	347	$9,974
Total	**85,130**	**$7,654**	**13,135**	**$9,533**

Note: Total does not equal sum of the sectors due to duplicate counting of transfer students.

Annual loan amounts have increased at a higher rate in the community and technical college sector, as shown in Figure 4. In five years, loan amounts increased by 11 percent for students attending public four institutions, 15 percent at private four year institutions, 7 percent at proprietary institutions, and 37 percent at community and technical colleges.

Figure 4: Annual Loan Amount by Needy Resident Undergraduates by Sector 2006-07 to 2010-11

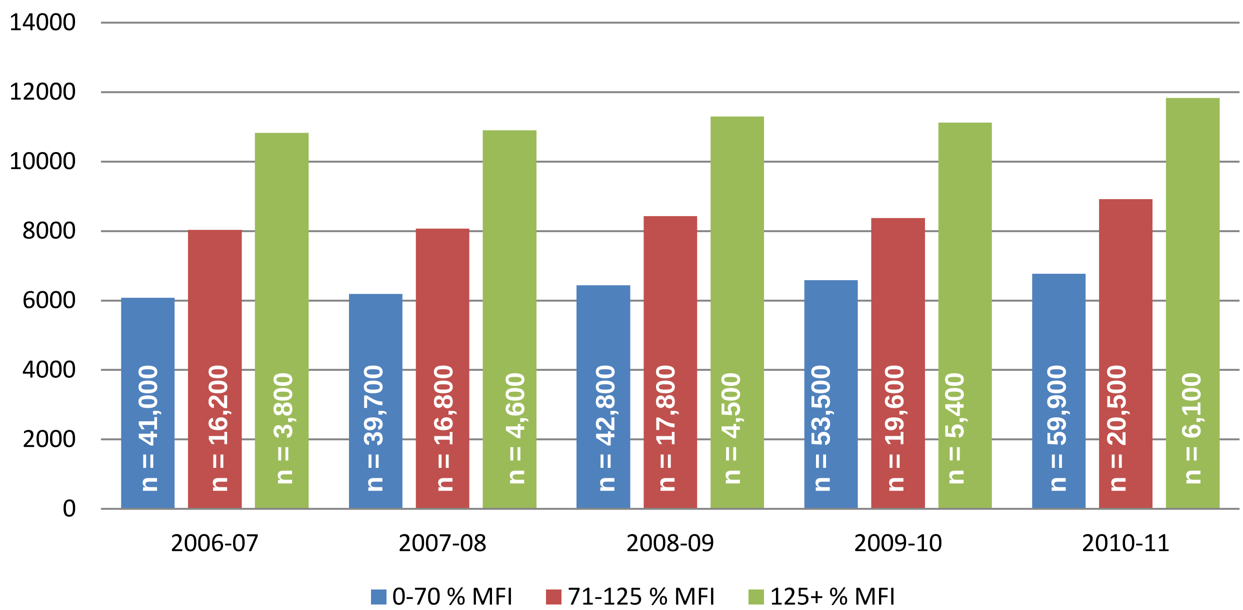


Students from higher income families who borrow take out higher amounts of loans than their peers, but fewer of these higher income level students borrow overall. Loan amounts for borrowers from lower income families have been increasing more quickly in recent years.

Average annual loan amounts for the lowest income group increased by 11.6 percent in four years, while it increased by 9 and 6 percent for the middle and highest income groups, respectively, as show in Figure 5.

However, federal loans have annual limits (see *Chapter VI - Federal and Private Student Loan Overview*). This means that students who are already borrowing at the upper limits, as many higher income student borrowers are, have less room to continue to increase borrowing within the federal programs.

Figure 5: Annual Loan Award by Income Level 2006-07 to 2010-11



Undergraduate student borrowing levels vary by dependency status and sector as shown in Figures 6 and 7. The amounts borrowed are lower for the dependent students, largely due to the federal loan limits by dependency status (see *Chapter IV - Federal and Private Student Loan Overview).* The average amount borrowed among the non-needy is higher for students attending public four-year campuses. More needy dependent students borrow than independent except in the two-year colleges, both public and private. In addition, more non-needy dependent students borrow than independent, regardless of sector.

Figure 6: Needy Resident Undergraduate Borrowing by Sector 2010-11
(excludes private and parent PLUS loans)

	DEPENDENT		INDEPENDENT	
	Average Loan	Headcount	Average Loan	Headcount
Public Four-Year	$5,812	22,234	$8,010	13,430
Four-Year Private	$6,679	6,904	$9,899	3,204
Community/Technical Colleges	$3,450	5,430	$5,839	28,427
Private Career	$6,280	2,045	$7,696	4,188

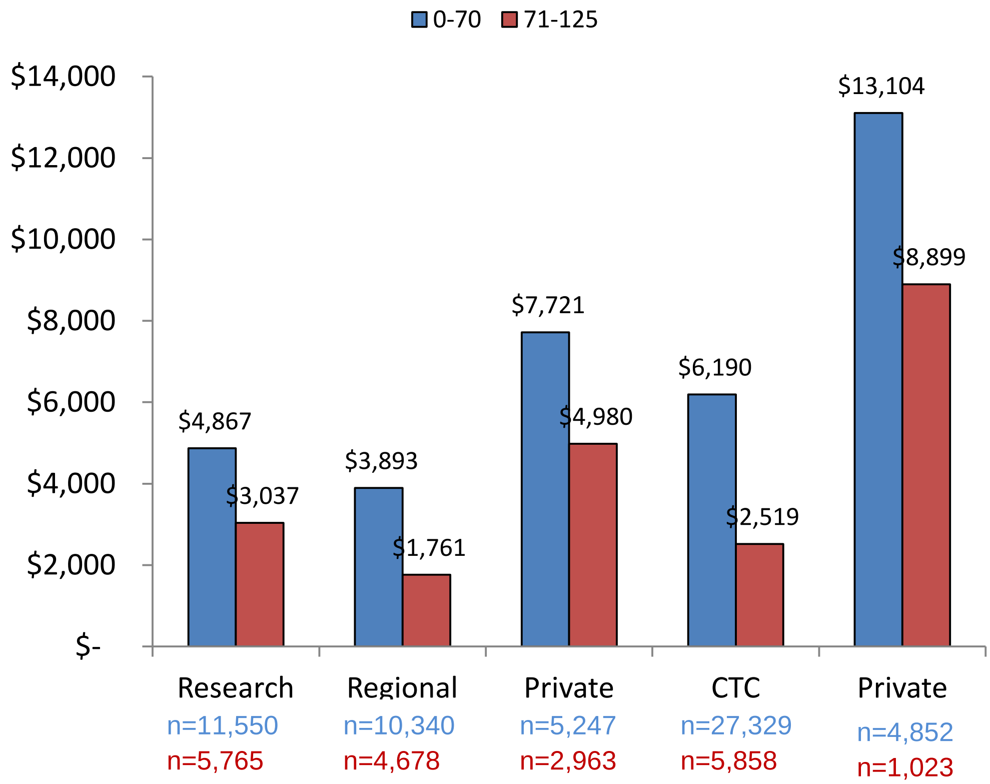
Figure 7: Non-Needy Resident Undergraduate Borrowing by Sector 2010-11
(excludes private and parent PLUS loans)

	DEPENDENT		INDEPENDENT	
	Average Loan	Headcount	Average Loan	Headcount
Public Four-Year	$6,214	7,100	$9,200	357
Four-Year Private	$6,153	1,206	$8,759	79
Community/Technical Colleges	$3,920	2,279	$6,414	1,196
Private Career	$5,534	258	$6,775	62

UNMET NEED DIFFERENCES BY SECTOR AND DEPENDENCY STATUS

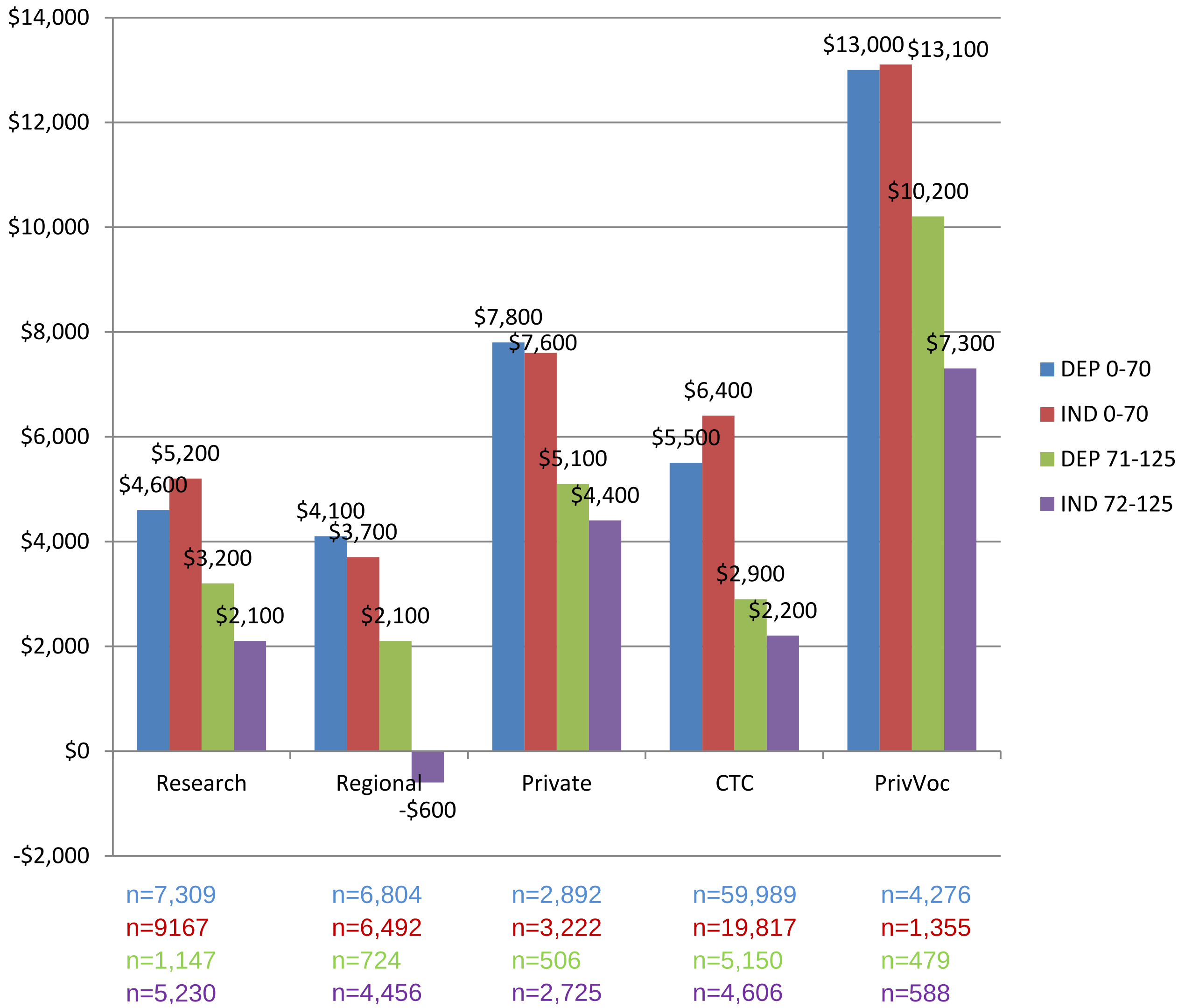
Lower income students have the highest unmet need, regardless of sector as shown in Figure 8. The average unmet need for resident undergraduate students also varies by dependency status as shown in Figure 9. The independent students in the lowest income group have higher unmet need in the public research and community college sectors, but less in the private four-year and public regional sectors. The upper income students have lower unmet needs for independent students, regardless of sector.

Figure 8: Average Unmet Need for Resident Undergraduates, 2010-11



Note: Narrowed to full-time, full-year resident undergraduate students 2010-11. Excludes federal parent PLUS and Grad PLUS loans.

Figure 9: Resident Undergraduate Unmet Need Averages by MFI and Dependency Status 2010-11



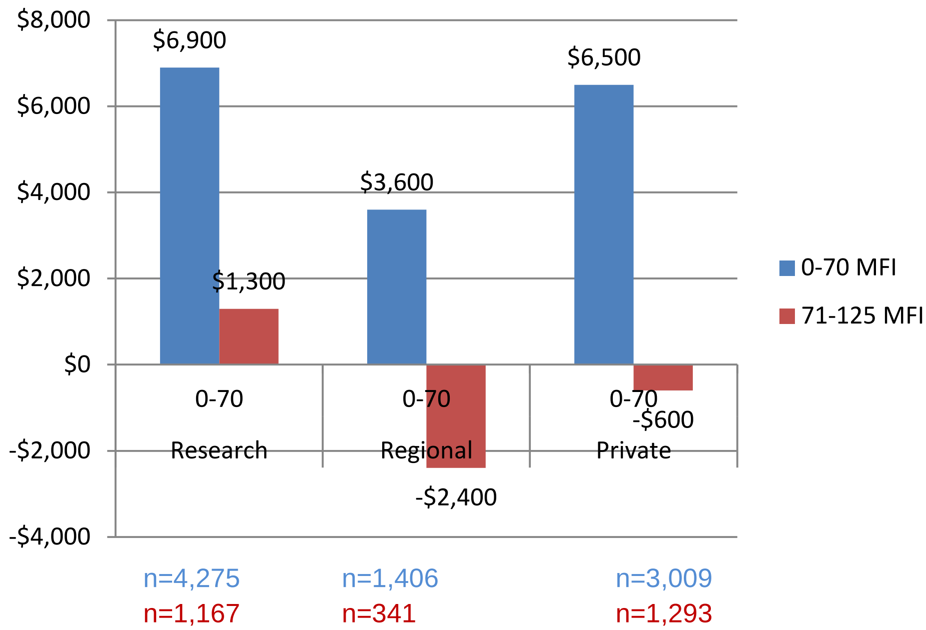
Note: Narrowed to full-time, full-year resident undergraduate students, 2010-11. Excludes federal parent PLUS and Grad PLUS loans.

GRADUATE STUDENT NEEDS

Graduate students tend to access primarily federal student loans with less opportunity to receive grant assistance; they are not eligible for Pell Grant or State Need Grant. Nearly 12,300 needy graduate students borrowed a federal student loan for an average of $21,700 in 2010-11. In addition, more than 1,000 graduate students who were not eligible for need-based loans borrowed unsubsidized federal loans at an average of $16,200.

Graduate students attending regional campuses have reduced unmet need than those attending research or private four-year institutions, as shown in Figure 10.

Figure 10: Resident Graduate Unmet Need Averages by MFI 2010-11
(excludes Grad PLUS loans)



DEBT UPON GRADUATION

According to the Project on Student Debt, Washington ranks 39th in the nation on the measure of average cumulated student loan debt upon graduation (www.projectonstudentdebt.org). The average loan debt upon graduation is reported to be $22,244 for 2011 graduates from Washington campuses that report data to the Institute for College Access and Success. Among graduates, 56 percent have student loan debt upon graduation, ranking Washington 29th on this measure.

STATE NEED GRANT STUDENT NEEDS

State Need Grant combines with federal, institutional and private aid to assist students in meeting their educational expenses. In fact, only 2 percent of SNG recipients receive only SNG. As noted in Figure 11, nearly all SNG recipients receive other grant assistance and about half borrow student loans and there are differences across sectors.

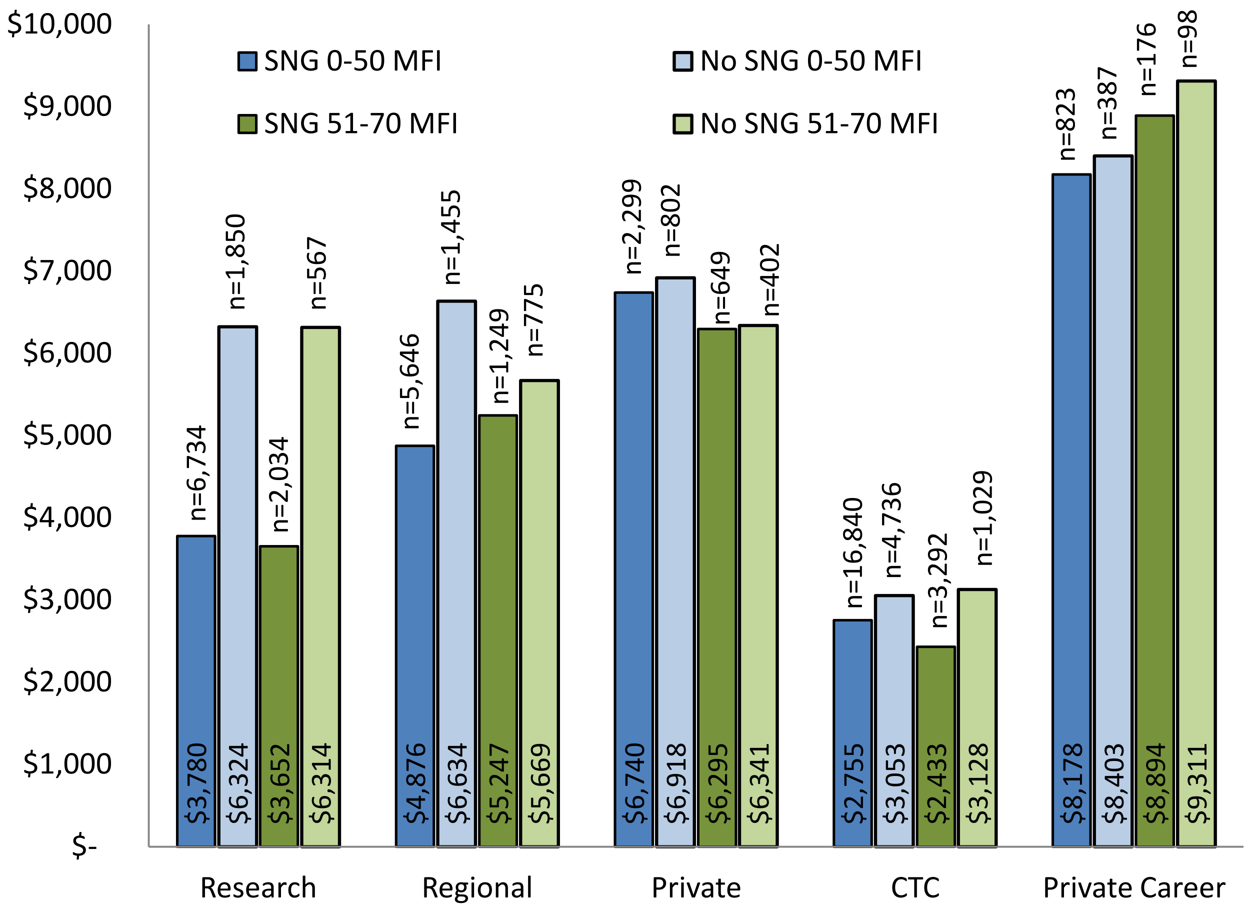
Figure 11: Average Type of Aid Received for SNG Recipients, 2010-11

	PELL	Other Grant Aid w/o SNG	Institutional/ Outside Aid	Student Loans	Work-Study
Research % Avg.	94% $4,912	69% $1,203	87% $4,171	66% $6,654	17% $1,065
Regional % Avg.	94% $4,968	42% $1,016	60% $2,716	77% $6,822	15% $2,687
Private 4 % Avg.	93% $4,663	63% $1,576	95% $11,159	84% $8,999	31% $2,648
CTC % Avg.	96% $5,283	29% $1,342	30% $1,625	40% $6,746	11% $3,204
Private Career % Avg.	93% $5,654	40% $1,615	19% $5,908	90% $9,512	2% $2,178
All Percent	**95%**	**43%**	**53%**	**57%**	**14%**
All Avg.	**$5,110**	**$1,267**	**$4,096**	**$7,093**	**$2,703**

Note: Percentages reflect portion of SNG recipients receiving that aid type and the amounts reflect the average for the group of students receiving that aid type.

For SNG-eligible students who borrow, the average annual loan debt is lower if they are served with SNG, regardless of sector or income range, as shown in Figure 12.

Figure 12: Average Annual Loan Amount for SNG Borrowers



Full-time, full-year SNG eligible as reported on the SNG Interim and Unit Record Reports with federal Stafford loans.

POSSIBLE BENEFITS OF A STATE LOAN PROGRAM

The HELP program could supplement the state's need-based aid programs and offer a long-term sustainable structure that will allow Washington State to support current and future students. In particular, creation of a new, low-cost state loan program for students in Washington could help improve higher education access and completion by:

- Addressing the "gap" that is created when parents want students to borrow to supplement the federal Stafford loan.
- Increasing education funding access for more Washington students who cannot afford more expensive private or alternative loans.

- Building an equitable funding approach which could reach more students, including higher income students.
- Leveraging existing state relationships (government, schools and lenders) to access low-cost financing and have a wide distribution network.
- Reducing borrower's costs through a low-interest loan making college more affordable.
- Offering loan terms that are better than those offered by other lenders and are competitive with federal PLUS loans.

Should Washington State decide to implement the HELP student loan program, it should be designed in a way that mimics how a Stafford loan works both during in-school and repayment status. Aligning as much as possible with the Stafford program would:

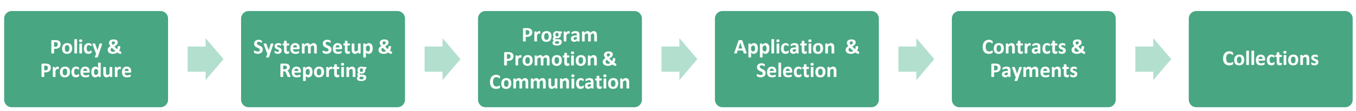
- Reduce borrower confusion,
- Coordinate borrowing by requiring higher education institutions to certify that the loan amount does not exceed student need,
- Simplify repayment, thereby reducing delinquencies and defaults, and
- Help in securing a loan servicer with the experience and existing systems to manage the program.

V. Administrative Considerations

Chapter V Administration Highlights

- The Council's administration of state aid programs includes a solid technical systems and staffing experience and infrastructure
- Council administration would require start-up funding until such time administrative funding could be secured from origination fee and loan repayments
- There are several qualified loan servicers in the state that could be contracted with to provide loan origination and servicing activities

COUNCIL ADMINISTRATION CONSIDERATIONS



The Washington Student Achievement Council (and its predecessor agency the Higher Education Coordinating Board) has acquired decades of administrative experience in the conditional loan program area and recently implemented a traditional student loan program with the Aerospace Training and Loan Program.

Over the years the agency has developed a sophisticated web-based system for applications, payments, tracking and data bases for the financial aid programs. The agency has gained experience in centralized loan origination, lending legal requirements, and contracting for billing and collection services. Drawing from this loan administration experience and consulting with other states with loan programs, the administrative considerations if the Council were asked to administer the HELP program are described in this chapter.

PROCEDURE AND POLICY DEVELOPMENT

Program startup can involve a considerable amount of effort. There are several facets of loan program set up that need to be established before the program can begin operations, including:

1. Establishing the selected financing option, fund accounts and cash flow
2. Clarifying legislative intent and developing supporting program policy
3. Developing all relevant correspondence, contracts/promissory notes, terms and conditions, applications, websites, deferral/forbearance request forms etc.

4. Programming automated application, award/payment tracking, and web based data base
5. Creating or adapting contracts for all relevant third party servicers
6. Promoting program to students, campuses and other related stakeholders
7. Drafting Washington Administrative Code as necessary to support program policy
8. Refining internal origination, tracking and follow-up procedures

There are several variables that once established will determine the resources necessary to set up and operate an ongoing loan program.

1. What is the total amount of funding available on an annual basis?
2. Who are the targeted recipients?
3. What are the eligibility requirements for the recipients (e.g. minimum credit score for applicant/cosigner)?
4. What is the maximum annual loan amount and lifetime loan amount per recipient?
5. What origination fees and interest rates should be charged to ensure that the program is self-sustaining?

SYSTEMS, TRACKING AND REPORTING

The Washington Student Achievement Council has developed a sophisticated web-based portal that has become invaluable to the efficiency of operations of all of the Council's automated financial aid programs. The Portal is customized for each program and is capable of processing automated program applications, retaining lists of program recipients, automating payments, tracking outstanding balances, generating notifications and tracking program data.

HELP program staff would work closely with information technology programmers to customize the needs of the new program. The magnitude of a relatively large state student loan program would be significant from a programming perspective and would require several programmers' time over several months or more. After development there would be ongoing system and maintenance needs.

The WSAC Portal system retains all necessary data on program recipients and enables access to data. The Portal can track everything from time lapses for deferment and grace periods to recipient profile information if provided on the automated application. All data can be customized based on the defined program requirements.

The billing agency and collection agency also provide standard and customized reports on assigned billing and collection accounts.

PROGRAM PROMOTION AND COMMUNICATIONS

The Council retains experienced promotion and communications staff that could be utilized for the marketing of HELP. The size of the loan program could impact the amount of communication efforts necessary to ensure that all funds are committed.

The primary targets for a loan program promotion would be the participating institutions and potential loan recipients. The recipients of the loans would need to be contacted directly by the Council and loan amounts would need to be communicated to the institutions.

APPLICATION PROCESS

An application would need to be developed in addition to the FAFSA to evaluate whether the student meets the criteria established by the program. Credit worthiness and other eligibility requirements would need to be obtained from the contracted credit bureau(s) which would involve a separate review process. A loan origination fee could be charged to cover all origination costs for the program.

One potential loan application scenario would be for the financial aid offices at the higher education institutions to encourage students to apply for a state loan through the WSAC Portal System. The financial aid office could certify the amount of remaining need after awarding other aid. Once approved, the state loan can be incorporated into the student's aid package. Selection could be based on a first come first serve basis on applicants who meet the minimum eligibility criteria. When funds are fully committed, applications could be placed on a wait list until additional funds become available.

STUDENT CONTRACTS AND PAYMENTS

All eligible students who are selected to receive the loan would need to sign a contract or promissory note with the Council that clearly defines the obligations of both parties involved in the loan.

Payments would be automated once the recipients send in the required contract for the loan. There would be verification steps needed to ensure that the loan recipients remain eligible to receive the loan (e.g. enrollment verification, Satisfactory Academic Progress, program length). Payments would likely be made to the institution to combine with other aid for payment of tuition and provision of a refund to the student, if applicable, to assist with covering other educational expenses.

BILLING AND COLLECTIONS

The Council currently contracts with a billing agency and three collection agencies for use in grant, scholarship, and loan programs where students are obligated to repay funds. The billing agency charges a fee on a per account, per month basis. Accounts are referred to the billing agency once the student enters repayment after completing school or losing eligibility for continued loan payments.

Recipients who do not make the minimum monthly payments are referred to a collection agency. If satisfactory arrangements are not made within a specified period of time, the account is then referred to the second placement collection agency. Collection agencies typically charge the debtor a 20 percent collection fee.

COST OF OPERATIONS

The cost of operations are scalable depending on how much of the loan administration is dealt with in house. For a fully in-house operation the staffing needs would be significant. The number of accounts will also be a major factor in the operational costs. Economies of scale would be created as a program size increases.

The costs would be associated with the following activities:

- Accounting and budget services
- Application processing, evaluation and selection
- Communications and client services
- IT Programming
- AAG support
- Loan origination and contract management
- Loan payments
- Loan tracking and data reporting
- Loan repayment collections and monitoring

Different aspects of operations could be outsourced to third parties which would reduce agency operational costs. However these costs would ultimately be paid through fees and interest by borrowers.

Administrative costs could be covered by loan origination fees and interest collections on existing loans. However, administrative dollars would need to be provided from alternative sources until collections could replace this need, which could take several years.

ALTERNATIVE ADMINISTRATIVE MODELS

The private student loan market has multiple business models that are supported in different ways by different types of organizations. The different organizations who can be involved in the different business models are:

- **Lenders** – typical lenders are national, regional and local credit unions. In some cases there are schools who act as institutional lenders.
- **State agencies** – typically are the administrators of programs and also may be the source for managing the funding.
- **Secondary markets** – organizations willing to purchase student loans from lenders/agencies so that those organizations can recycle their limited funding to make new student loans.
- **Servicers** – organizations that contract with others for a fee to manage and service loans.
- **Software providers** – organizations that provide software to manage private student loan programs but do not perform the work themselves.

The most common business models are the following:

- **Origination only** – application and disbursement process then moves the loan to a servicer.
- **Servicing only** – enrollment management, loan status management, repayment management, and sometimes collections.
- **Origination and full life of loan servicing** – application, disbursement, enrollment management, loan status management, repayment management, and sometimes collections.
- **Origination and transfer/sale upon disbursement** – application and disbursement process then sell loan to a secondary market.

Given the number of models available and the number of different players in the business provides state agencies with options to enable the most efficient and effective program administration.

The following are three alternative options for the consideration in the administration of the HELP program. The costs mentioned are rough estimates and the servicers/providers would need more details regarding program specifics to provide accurate estimates.

Servicer 1 provides a licensed servicing system developed specifically for private loans, with over 15 years of experience. Washington could opt to perform origination and have servicing only performed by the servicer or could have the servicer perform the origination and full life of loan servicing.

Servicer 1 does not perform collections should the loan default. This servicer is quoting a start up cost of about $100,000 for two loan programs. Monthly fees would depend on the portfolio size and the status of the loans. Start-up could occur in about 90 days since there would be no conversion required. Funding for the loans would be based on the state model selected.

Servicer 2 provides servicing only and would require the Council to perform their own origination and provide electronic records to Servicer 2 to perform loan servicing. Servicer 2 has been providing this type of service for over 10 years. This particular servicer would negotiate on performing collections should the loan default. Servicer 2 is quoting a start up cost of about $12,000 for the organization, but has many additional per loan fees such as $6.00 per loan conversion fee, $1.50 – 1.70 borrower fee, $3.00 – 3.40 for in grace fee, $4.00 - $4.50 repayment fee for year one, subsequent years $3.50 – 4.00, delinquency charges and more. Start-up could occur in about 90 days if the loan provisions are very similar to federal Stafford loans. Funding for the loans would be based on the state model selected.

Servicer 3 provides origination and full life of loan servicing and origination and transfer/sale upon disbursement. Servicer 3 has been providing extensive servicing and secondary market services for years. Servicer 3 suggested two hybrid approaches within the origination and full life of loan servicing and origination and transfer/sale upon disbursement which we will refer to as “referral” and “lender funded model”. With the “referral” model, Servicer 3 would fund and service the loans and the Council would build a website for students to apply for a loan that then feeds into Servicer 3’s system. With this hybrid approach, no state funding would be required other than to build the website. With the “lender funded model,” Servicer 3 would originate and service the loan using the state funding. Once the loans have been fully disbursed, Servicer 3 would purchase the loan from the Council thus replenishing funds. With the “lender funded model” the only state funding required would be to build the website and have funding available based on the state model selected. Start-up could occur in about 60 – 120 days depending upon usury laws.

KEY FEATURES AND FUNCTIONALITY

Key features and functionality that WSAC will want to also look at for administrative success is the servicer’s or provider’s ability to provide for scalability, audit ability, and reliability. The providers would need real time editing and credit decisions, electronic school certification, and e-signature capabilities. Providers should support features like electronic interface with the most current formats with schools and the national Clearinghouse to effectively manage the loan records.

In addition, highly customizable reporting and letter generation are important. Lenders need to be flexible, provide excellent customer service, and maintain secure firewalls for security. The Council would need to ensure any provider selected has demonstrated competent experience.

VI. Federal and Private Student Loan Overview

Chapter VI Federal and Private Loans Highlights

- Federal Stafford Direct loans (subsidized and unsubsidized), Perkins loans and Parent PLUS loans as well as Grad PLUS loans provide the majority of student loan funding.
- Federal programs offer low interest rates, flexible repayment options and borrower benefits.
- Private loans offer students a means to fill financial gaps but are less available than previously, have higher interest rates, and minimal borrower benefits.

Federal aid, in the form of loans, grants, and tax credits, makes up over two-thirds of direct aid to all postsecondary students (College Board, 2011). Private student loans make up less than 15 percent of total student debt and contributed less than 7 percent to the estimated $112 billion nationally in total student loans originated in 2010-2011.

FEDERAL LOAN OPTIONS

The federal government provides various types of student loans to help promote access to higher education. The common goal among the different loans is to allow students to obtain financing for higher education at better terms than those generally available in the private market.

Federal student loan programs provide access to loans with below-market interest rates and flexible repayment options. Essentially, the federal government subsidizes the cost of the loan for the borrower. Loans are available for undergraduate study and graduate study.

The federal loan programs require both entrance and exit counseling for students to understand their rights and responsibilities and include annual loan caps by year in school designed to prevent over-borrowing.

The vast majority of all student borrowing is done through the federal Direct Stafford student loan program. Federal legislation in 2010 (HR 4872) required all institutions participating in federal Stafford student loans to participate in the Direct Loan Program, rather than bank-based lending. However, this did not change the availability of student loans nor the terms and benefits offered to students.

STAFFORD LOANS - SUBSIDIZED

Subsidized Stafford loans are available to undergraduate students with demonstrated need as determined through the FAFSA and according to federal methodology. Subsidized Stafford loans provide significant benefits to eligible students including lower interest rates and interest that does not accrue while the borrower is enrolled. However, borrowing limits are lower.

Both undergraduate and graduate students were historically eligible for Subsidized Stafford loans. However, the Budget Control Act of 2011 made graduate students ineligible for newly issued loans as of July 2012.

For both dependent and independent undergraduate students, the limits for borrowing are $3,500 for the first year, $4,500 for the second year, and $5,500 for the third year with the aggregate limit set at $23,000.

The 3.4 percent interest rate for subsidized Stafford loans was extended for one additional year in 2012. Loans originated in each year carry the interest rate for entire repayment period. Subsidized Stafford loans originated in academic year 2013-14 and thereafter will carry an interest rate of 6.8 percent unless legislation is enacted to alter the current schedule.

STAFFORD LOANS - UNSUBSIDIZED

Unsubsidized Stafford loans are available to all undergraduate and graduate students who complete a FAFSA, regardless of any calculated financial need. Interest rates on loans taken out after July 2006 are fixed at 6.8 percent. Loans originated earlier carry variable interest rates.

Borrowers do not need to make principal or interest payments on the loans while in school, but interest does accrue while the student is in school following the first loan disbursement. Deferred interest adds to the total loan repayment obligation. Loans generally must be paid back over 10 years once a borrower leaves school, but extended repayment plans are available.

Dependent undergraduate students can borrow up to the cost of attendance, but no more than $5,500 in their first year, $6,500 in the second year, and $7,500 each year thereafter, and cannot borrow more than $31,000 in total. Independent borrowers are eligible to borrow $9,500 in the first year, $10,500 in the second, and $12,500 in the third, with the aggregate limit set at $57,500. Graduate students may borrow no more than $20,500 each year and $138,500 in total.

PLUS LOANS AND GRAD PLUS LOANS

Many parents of undergraduate students seeking funding to help their children through college turn to federal Parent Loans for Undergraduate Student (PLUS) loans. Parents may borrow an amount up to the cost of attendance including tuition, housing, and other expenses minus other financial aid received. PLUS loans are not subject to specific dollar caps. PLUS loans carry a fixed 7.9 percent interest rate and are charged from the date of first disbursement until the loan is paid in full. Unlike Stafford loans, parents must satisfy a limited credit check. Loans generally must be paid back over 10 years, though the borrower may defer repayment or qualify for loan forgiveness in certain circumstances.

Graduate students may borrow PLUS loans for themselves under the same terms that the loans are provided to parents of dependent undergraduates. Grad PLUS loans are meant for borrowers who exhaust eligibility for Stafford loans.

FEDERAL PERKINS LOANS

The Perkins Loan program is campus-based program that is separate from Stafford and PLUS loans. Participating campuses offer loans to students from lower income families. Schools have some discretion in determining which students receive a Perkins loan and the size of the loan offered.

Funding for Perkins loans is provided by the federal government directly to colleges and universities, which must match one-third of the funding. Repayment can be no longer than 10 years, interest rates are fixed at 5 percent, and annual borrowing limits are set at $4,000 for undergraduates and $6,000 for graduate students. The federal government also provides separate funding to forgive Perkins Loans if borrowers are employed in certain high-need jobs.

STUDENT BENEFITS AVAILABLE THROUGH FEDERAL LOAN PROGRAMS

The federal Stafford loan programs offer flexible repayment plans and a variety of deferment options for qualified borrowers.

- Several Repayment Plans offered (http://studentaid.ed.gov/repay-loans/understand/plans)
  - Standard (fixed amount paid up to 10 years and less interest paid overall)
  - Graduated (lower at first then increase every 2 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/income contingent

- Forgiveness/Cancellation/Discharge options (http://studentaid.ed.gov/node/87#false-certification)
  - Total and permanent disability
  - Death
  - Bankruptcy (in rare cases the court indicates repayment would cause undue hardship)

- Closed school
- Unauthorized payment/false certification
- Teacher forgiveness (teaching for 5 years in eligible school)
- Public Service forgiveness (after 120 payments)

DEFAULT RATES NATIONALLY AND IN WASHINGTON

In Washington, of the 52,600 borrowers in repayment, about 3,800 were in default, or a rate of approximately 7 percent. The national rate ranged from a low of 3.4 percent in North Dakota and Montana to 16 percent in Arizona.

PRIVATE STUDENT LOANS

Students who are unable to borrow as much money as they need to finance their education through the federal programs described above often turn to privately issued loans in order to access additional funding. Private loans are designed to provide supplemental funding to cover unmet student need.

Private loans are typically issued by banks or credit unions and are essentially unregulated by the government. The primary for-profit lenders doing business in Washington include Chase, Citibank, Citizen, Discover, PNC, Sallie Mae, and Wells Fargo.

These loans typically feature higher interest rates that are often variable. Repayment terms on private loans are typically less flexible than federal loans. Private loans do not have caps and students may borrow amounts up to school certified cost of attendance. Loan approvals are dependent on the credit worthiness of the borrower/co-signer.

As a result of the decline in the credit market, private loans have been less broadly available to students and there has been a decrease in borrowing of private loans for need-based recipients. For several years, through 2007-08, private loan borrowing by needy students was essentially constant at about $43 million per year. Since then, private loan volumes for needy undergraduate students have steadily declined to $27 million in 2010-11. However, there is not a solid data source that captures all private loan borrowing for Washington students.

The private student loan market consists of three types of lenders: depository and non-depository financial institutions, non-profit lenders, many of which are affiliated with states, and certain schools that elect to fund or effectively guarantee loans (institutional lenders). Financial institutions make up the majority of the market, with schools and state affiliates making approximately $1.9 billion a year in new loans out of a total of $7.9 billion in 2010-2011 (College Board, 2011).

Appendix A: HELP Statute and Report Proviso

28B.97.010 Washington higher education loan program.

(1) The Washington higher education loan program is created. The program is created to assist students in need of additional low-cost student loans and related loan benefits.

(2) The program shall be administered by the office. In administering the program, the office must:

(a) Periodically assess the needs and target the benefits to selected students;

(b) Devise a program to address the following issues related to loans:

(i) Issuance of low-interest educational loans;

(ii) Determining loan repayment obligations and options;

(iii) Borrowing educational loans at low interest rates;

(iv) Developing conditional loans that can be forgiven in exchange for service; and

(v) Creating an emergency loan fund to help students until other state and federal long-term financing can be secured;

(c) Accept public and private contributions;

(d) Publicize the program; and

(e) Work with public and private colleges and universities, the state board for community and technical colleges, the workforce training and education coordinating board, and with students, to conduct periodic assessment of program needs. The office may also consult with other groups and individuals as needed.

28B.97.020 Definitions.

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Institution of higher education" means a college or university in the state of Washington that is accredited by an accrediting association recognized as such by rule of the student achievement council.

(2) "Office" means the office of student financial assistance.

(3) "Program" means the Washington higher education loan program.

(4) "Resident student" has the definition in RCW

HELP Legislative Report Assigned in 2012 Budget Proviso (HB 2127).

$50,000 of the amount provided in this section shall be used to convene the higher education loan program work group. The work group shall develop methods for funding the loan program in the future, as well as recommendations regarding the best loan program structure for providing financial aid to underserved populations. The work group shall seek out technical advice from the housing finance commission.

At a minimum, the recommendations regarding the proposed loan program must take into account the following: Whether students could benefit from the creation of a new student loan program; the relationship between the student loan program and the state need grant program and the state need grant qualified student population; mechanisms to achieve interest rates that are below those offered in federally guaranteed and private bank student loans; sources of initial and ongoing funding for loans and program operation; and default risks, reserve requirements, and other conditions required for the student loan program. The work group shall provide a report to the legislature no later than December 1, 2012.

Appendix B: HELP Workgroup Members

PARTICIPANTS

Don Bennett, Washington Student Achievement Council
Scott Copeland, State Board for Community and Technical Colleges
Karen DeVilla, Northwest Education Loan Association
Barry Fick, Washington Higher Education Facilities Authority
Paul Francis, Council of Presidents
Marissa Greear, Lower Columbia College
Bob Hasegawa, Representative, 11^{th} District
Kim Herman, Washington State Housing Finance Commission
Lyle Jacobson, fiscal consultant
Julie Japhet, Washington Student Achievement Council
Carol Johnson, Washington Higher Education Facilities Authority
Kay Lewis, University of Washington
Wolfgang Optiz, Treasurer's Office
Jeffrey Powell, Washington Student Achievement Council
Jane Sherman, Council of Presidents
Rachelle Sharpe, Washington Student Achievement Council
Kay Soltis, Pacific Lutheran University
Chris Thompson, Independent Colleges of Washington
Gena Wikstrom, Northwest Federation of Private Career Colleges
Amy Williamson, Peninsula College
Barbara Zettle, Pacific Lutheran University

LEGISLATIVE STAFF ATTENDEES

Kim Cushing, Senate Higher Education Committee Staff
Cody Eccles, Senate Republican Caucus Staff
Maria Hovde, Senate Ways and Means Education Committee Staff
Dave Johnson, House Ways and Means Committee Staff
Mary Kenfield, House Democratic Caucus Staff
Becca Kenna-Schenk, Senate Democratic Caucus Staff
Miranda Leskinen, Legislative Assistant to Speaker of the House
Catrina Lucero, House Ways and Means Education Committee Staff
Patrick Neville, House Democratic Caucus Staff
Madeleine Thompson, House Higher Education Committee Staff

Appendix C: Contracted Consultants for HELP Report

NORTHWEST EDUCATION LOAN ASSOCIATION

The Northwest Education Loan Association (NELA) provided expertise, content and analysis to the development of the HELP report. NELA has served as the state's designated loan guarantor in the federal loan program since 1978 and has experience in originating and servicing student loans, enrollment verification, loan status management, repayment conversion, developing default management programs, assisting higher education institutions with loan counseling and interpreting federal regulations, as well as buying and selling in the student loan market. The organization also has experience with borrower benefits and loan forgiveness programs.

LYLE JACOBSEN

Lyle Jacobsen provided consultation related to the development of finance options for the HELP program. Mr. Jacobsen is retired from state service having served as the Director of the Office for Financial Management, Assistant State Treasurer, and as Vice Chair of the Higher Education Coordinating Board.

Appendix D: Existing Washington Workforce financial aid Programs

The HELP program permits a conditional scholarship or loan repayment as a program design option, as well as a traditional student loan option. Washington has several targeted workforce programs that are conditional scholarships, loan repayment programs, and a traditional loan as described below.

The **Future Teachers Conditional Scholarship and Loan Repayment program** is designed to encourage outstanding students and para-professionals to become teachers. Future Teachers also helps current certified Washington teachers obtain additional endorsements to their certificates to help meet the state's K-12 education needs in teacher shortage subject areas and the Legislature can specify selection priority subjects each year.

In return for conditional scholarships (i.e. forgivable loans) or loan repayments (toward federal student loans), participants agree to teach in Washington K-12 public schools in full-time, part-time, or substitute positions. Usually one year of a Future Teacher's program loans are forgiven for every two years of qualified teaching service.

Participants who fail to provide all qualified teaching service are required to repay their program loans with interest and fees. Since 1999, 66 of 792 program participants have had to repay their awards through monetary repayment. This is a default rate of about 8 percent.

The program has provided 50 to 100 awards per year from 2004 to 2010, depending on funds available. Legislative funding was suspended in 2010-11 due to state budgetary issues.

The **Alternative Routes to Teacher Certification Conditional Loan Scholarship program** is designed to help school districts recruit teachers in specific subject matter and geographic areas experiencing teacher shortages.

In return for conditional scholarships (i.e. forgivable loans), participants agree to teach in Washington K-12 public schools in full-time, part-time, or substitute positions for a specific length of time. One year of program loans are forgiven for every two years of qualified teaching service. In 2012-2013, Alternative Routes participants are eligible for awards ranging from $3,000 to $8,000.

The Washington Professional Educator Standards Board administers the program. They determine the teacher shortage areas and select the conditional loan scholarship recipients in conjunction with participating institutions.

The Council serves as the fiscal agent for the program, disbursing the conditional loan scholarships and tracking the completion of obligation through teaching service or repayment. Participants who fail to provide all qualified teaching service are required to repay their program loans with interest and fees. The Alternative Routes program received legislative funding of $312,000 in 2012-2013.

The **Aerospace Loan Program** (ALP) was created by the 2011 Legislature and provides low-interest tuition loans to Washington students who have been accepted into the Everett-based Washington Aerospace Training and Research Center Program but have a demonstrated inability to pay the full cost of attending the program. Standard financial aid sources are not available to students in short certificate programs.

The primary purpose is to help fill critical jobs at over 650 aerospace companies located in Washington by ensuring an adequate pipeline of trained in-state workers. By January 2013, ALP will have provided new career opportunities to about 150 graduates with many more in the pipeline.

Students enhance existing job skills or earn certificates in aerospace manufacturing, assembly mechanics, and electronics through loan assistance of up to $4,800 for 12 weeks of training in Everett or Renton. Initially funded at $250,000, ALP received an additional $1 million for 2012-13 by the Legislature.

Once coursework is completed, graduates have a three month grace period to find employment prior to making initial payments on the loan amount. The full loan must be repaid within three years. The Council is submitting a Legislative report regarding the Aerospace implementation and status by December 2012.

Appendix E: Recent Student Loan Research Findings Making Headlines

Debt balances on student loans now exceed amounts consumers owe on credit cards and auto purchases[1]

- Americans owe nearly $1 trillion in student loans. Auto purchasers owe $730 million; credit card balances total $693 billion.
- Extreme debt examples often capture headlines. Average debt in 2011 was $23,300. But just 10 percent of students owed more than $53,000 and only 3 percent owed more than $100,000.

Student borrowing has become the norm[2]

- The percentage of students taking out loans to pursue bachelor's degrees has increased from about 45 percent in 1992-93 to more than 66 percent today.

Assumptions about the value of a college education may influence perceptions about student debt[3]

- College payments often are portrayed as annual out-of-pocket expenses during the years a student is in school, although benefits are enjoyed over a lifetime.
- Education may seem more affordable if people are encouraged to think of it as fundamental need and investment to be paid over time, like housing.

Borrowing helps many students complete college[4]

- In 2003-04, 44 percent of non-borrowers dropped out, compared to 29 percent of borrowers.
- Survey suggests a big reason for dropping out is inability to balance a job and classes. Borrowing buys students time to focus on completing education.

Current unemployment among college graduates could impact ability to repay student loans[5]

- About 1.5 million, or 53.6 percent, of bachelor's degree holders under the age of 25 in 2011 were jobless or underemployed, the highest rate in at least 11 years.
- About half were in the underemployed category and heavily represented in jobs requiring a high school diploma or less.

Some private student loan practices had similarities to subprime mortgage lending[6]

- Between 2001 and 2008, some private lenders bypassed school financial aid offices and marketed loans directly to students who could not afford or did not understand them.
- An estimated 850,000 private student loans worth over $8.1 billion are now in default.

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1 Federal Reserve Bank of New York, "Grading Student Loans," March 5, 2012.

2 The New York Times, "Degrees of Debt, A Generation Hobbled by the Soaring Costs of College," May 12, 2012.

3 Baum, Sandy and Saul Schwartz, "Is College Affordable? In Search of a Meaningful Definition," Institute for Higher Education Policy, July 2012.

4 The Atlantic, "More Student Debt, Please: Why College Students Don't Borrow Enough," June 12, 2012.

5 The Two Way, NPR's News Blog, retrieved on 7/19/2012 from www.npr.org/blogs/thetwo-way/2012/04/23/151217630/ap-analysis-half-of-recent-college-grads-are-jobless-or-underemployed

6 Consumer Financial Protection Bureau, "Consumer Financial Protection Bureau and U.S. Department of Education Joint Report Finds a Cycle of Boom and Bust in Private Student Loan Market," July 19, 2012.

Appendix F: The Dakota Education Alternative Loan Program (DEAL)

The Dakota Education Alternative Loan Program (DEAL) is available to any student in a 6 state region (ND, SD, MT, WY, MN, and WI). A student from one of these states can go to school anywhere in the US and apply for a DEAL loan at an accredited school by the US Dept of Education.

The Bank of North Dakota (BND) is a state agency and is the only state-owned bank in the US. BND is not insured by FDIC but by the State of North Dakota. All state deposits are held here and used to fund various loan programs including the DEAL. They are a federally designated guaranty agency for ND. At one time, the BND guaranteed federal loans under the FFEL Program until that was replaced with only Federal Direct Student Loans 7/1/2010. SLND also guarantees the DEAL program in the event of default, death, total disability, and bankruptcy. The loan does require a co-signer if the borrower is under 24. The loan has a fixed or various rate options for borrowers to choose. Rates change quarterly.

DEAL interest rates effective July 1 – September 30, 2012 are shown below. Please note that the fixed and variable interest rates for out-of-state students attending an out-of-state college are 5.60% and 2.96% respectively. However, the chart reflects the Annual Percentage Rate (APR) and varies from the current rate because it considers certain fees the borrower pays to obtain the loan, the interest rate and whether the borrower defers (postpones) payments while in school.

DEAL Fee and Interest Rate Comparison Table

Student/College Information	Loan Fee	Fixed Interest Rate	Fixed APR [1]	Variable Interest Rate	Variable APR [1]
ND student attending a ND college	0%	4.60%	4.60%	1.96%	1.96%
Out-of-state student attending a ND college	0%	4.60%	4.60%	1.96%	1.96%
ND student attending out-of-state	0%	4.60%	4.60%	1.96%	1.96%
Out-of-state student attending out-of-state	3%	5.60%	6.27% [2]	2.96%	3.60% [3]

[1] The APR is typically different than the actual interest rate because the APR considers fees and reflects the cost of your loan as a yearly rate. The APR's listed above also assume the interest that accrues during the in-school and grace period is paid monthly prior to the loan entering repayment.
[2] The APR example provided assumes a loan balance of $10,000, the current interest rate of **5.60%** and a repayment term of 120 payments.
[3] The APR example provided assumes a loan balance of $10,000, the current interest rate of **2.96%** and a repayment term of 120 payments.
While in repayment, a .25% interest rate reduction will be given for automatic payments from a checking or savings account.

For more information on the DEAL program, please visit one of our websites:Bank of North Dakota – www.bankn d.nd.gov; BND Student Loan Services – www.mystudentloanonline.nd.gov; Student Loans of North Dakota – www.starthere4loans.nd.gov

Many states charter privately owned banks, but only one state—North Dakota—owns and operates its own bank, the Bank of North Dakota (BND).

BND History and Operations

- BND was established in 1919 as part of a populist movement to assist farmers and promote agriculture, commerce and industry in the state.
- BND's primary deposits are state tax collections and revenues generated by state agencies. The law requires that all state taxes and fees be deposited in BND. Private citizens and other government agencies also may deposit money in BND. However, the bank operates at only one location, and its retail banking services are limited.
- The bank is not a member of the Federal Deposit Insurance Corporation (FDIC). Deposits are not FDIC-insured, but rather are guaranteed by the full faith and credit of the State of North Dakota.
- Although BND can engage in any legally authorized activity permitted for other banks, in practice its lending activities are limited and often carried out in conjunction with another lead financial institution. However, legislation gives BND express authority to acquire or refinance farm real estate by qualified individuals, to purchase or acquire bank stock or form a bank holding company, and to assist with postsecondary education costs (college saving and student loan programs).

BND Programs that Assist Postsecondary Education

- **Dakota Education Alternative Loan (DEAL).** A state-funded student loan program established in 1967 for students who have maximized their federal student loan options but continue to lack sufficient resources to cover the cost of attendance at a postsecondary institution. Loans are funded by BND. Open to legal residents of North Dakota and several surrounding states, or persons attending schools in those states. North Dakota residents or persons attending school in the state pay no fees and have a choice of fixed or variable-rate loans.
- **Student Loans of North Dakota (SLND).** Guarantees student loans made under the Federal Family Education Loan Program. Also promotes student financial literacy, provides loan information, and offers training and support to industry partners engaged in loan activities.
- **College SAVE.** North Dakota's 529 college savings plan. The program provides tax benefits and a range of investment options for families saving for college education.

Sources:

Bank of North Dakota FAQs, http://banknd.nd.gov/about_BND/pdfs/faqs.pdf
History of Bank of North Dakota, http://banknd.nd.gov/about_BND/history_of_BND.html
Dakota Education Alternative Loan, http://mystudentloanonline.nd.gov/loan_types/DEAL/index.html

Appendix G: Possible Terms and Conditions Structure for HELP

All areas with green fonts are a decision area that we need to come to conclusion on.

Loan Type	• Unsecured, credit-based, consumer loan for education. • Certified by participating colleges and universities in the state of Washington.
Institutional Eligibility	• Participating higher education institutions must be Title IV-eligible and agree to certify HELP private education loans prior to disbursement.
Borrower Eligibility	• Undergraduate and graduate U.S. students enrolled at least part-time (50%) in a degree-granting program at Title IV-eligible institutions located in the state of Washington. • Undergraduate and graduate U.S. students who are residents of Washington and are enrolled at least part-time (50%) in a degree-granting program at participating, Title IV-eligible institutions located in the continental U.S. • Prospective borrowers may not be in default status on a federal student loan.
Satisfactory Academic Progress	• Students must maintain the academic standards required by their postsecondary institutions in order to be eligible to receive payment for HELP.
Credit Criteria	• Students must apply with a creditworthy cosigner (must be U.S. citizens or permanent residents). • FICO score of at least 700. "Good" credit is defined as a score of 700-749, "Better" credit is 750-799, and "Excellent" credit is defined as a score of 800 and above. • Credit information is valid up to 60 days.
Cosigner Requirement	• A cosigner is recommended for all borrowers.
Loan Amounts	• Annual minimum: $2,000; annual maximum $5,000: Not to exceed annual COA, minus other aid. • Undergraduate student aggregate loan limit: Not to exceed program total COA, minus other aid. • Graduate student aggregate loan limit: Not to exceed program total COA, minus other aid.

Interest Rates & Origination Fees

*(*Interest rates are based on the current T-Bill rate of 0.15% and actual Bond rates.)*

Full Repayment	Interest Rate	Origination Fee
Excellent Credit	X.XX%	X.XX%
Better Credit	X.XX%	X.XX%
Good Credit	X.XX%	X.XX%

Interest-Only Repayment	Interest Rate	Origination Fee
Excellent Credit	X.XX%	X.XX%
Better Credit	X.XX%	X.XX%
Good Credit	X.XX%	X.XX%

Deferred Repayment	Interest Rate	Origination Fee
Excellent Credit	X.XX%	X.XX%
Better Credit	X.XX%	X.XX%
Good Credit	X.XX%	X.XX%

Loan Fees	• The loan origination fee will be charged and added to the loan principal. • A $XX fee for late payments will be charged. • A $XX fee for returned checks (NSF) may be charged.
Application Process	• Downloadable and online applications available at www.xxx.com each year on a first come first considered till funding is maxed out for each year.
Loan Certification	• School financial aid office certifies student's enrollment status, loan period, amount(s) requested, year of study and anticipated completion date.
Disbursement Process	• Two disbursements per loan, disbursed to school electronically or via paper check.
Capitalization Policy	• Once at the end of grace, once at the end of each period of qualified deferment (including re-enrollment) and once every 90 days (quarterly) during each 12-month period of forbearance.
Grace Period	• Six months following graduation, after dropping to less than part-time (50%) enrollment or withdrawal from the student's institution. (Note: There is no grace period with the "immediate" repayment option.)
Loan Repayment Options	• Immediate repayment – Make monthly payments of both principal and interest while enrolled in school, followed by up to ten years (120 months) to repay the remaining balance. • Interest-only repayment – Make monthly payments of accrued interest while enrolled in school and during grace; up to ten years (120 months) to

	repay remaining balance after the grace period. • Deferred repayment – No payments due until six months after graduation. Interest will be charged and added to the balance; up to ten years (120 months) to repay the balance after the grace period.
Payment Methods	• Via auto-debit or made directly to the servicing center.
Postponing Payments	• Borrowers may qualify for re-enrollment, active military service or economic hardship deferments. • Forbearances available if students do not qualify for a deferment or experience economic hardship for up to 3 years with documentation of financial hardship provided every 3 months.
Cancellation Policy	• Upheld in accordance with Truth in Lending regulations. Loans are not dischargeable upon death.
Borrower Benefits	• No repayment fees. • .25 percent interest rate reduction for auto-debit payments. • Students may apply for a cosigner release after 60 on-time payments following the grace period.*
Lender	• HELP dba "XXX" via a trustee relationship with XXX Bank or XXX Bank or state of Washington.
Origination & Servicing	• Entity TBD (could be 2 separate entities).
Default Prevention & Collections	• Default prevention work performed by XXX on loans XXX to XXX days delinquent. • Loans 180+ days delinquent will be considered to be in defaulted status and will be turned over for collections by XXX.

** HELP retains the right to assess a borrower's credit score after graduation and prior to a decision on cosigner release (borrower must have a minimum score of 700 to qualify).*

Appendix H: Truth-in-Lending Act Requirements

The federal Truth-In-Lending Act (TILA) changed the regulations necessary for borrowers to receive private educational loans in 2010. The purpose of this regulation is to inform consumers about credit by requiring disclosures about its terms and costs. The regulation also provides consumers the right to cancel certain credit transactions and practices of creditors who extend private education loans. The following is a broad overview of the requirements.

Disclosures – Three detailed disclosures are required throughout the loan application and approval process: disclosures with applications, disclosures with the notice of loan approval, and disclosures before the loan disbursement. These disclosures provide notice of terms in advance of completing the application, 30 days following receipt of the approval disclosures to accept the loan, and prohibit certain changes to a loan's rate or terms during that time. The disclosures also include a three-day "right of rescission" period in which the student may cancel the loan three business days after receipt of the final disclosures and disbursement during that time is prohibited.

Self certification – Creditors are required to obtain a signed completed self-certification form before consummating the transaction and those creditors with preferred lender arrangements are required to provide certain information to educational institutions. The required signed self-certification form must be returned to the lender. This completed form must show the student's cost of attendance, expected family contribution, estimated financial assistance, total aid and the maximum private loan amount allowed. The self-certification form must be available at any Student Financial Aid Office.

Co-branding – Regulations extend prohibitions related to co-branding. Creditors may not use in its marketing an educational institution's name, logo, mascot, or other words or symbols readily identified with the institution, to imply that the institution endorses the loans offered by the creditor. There is an exception to this prohibition for creditors who enter into an agreement where the covered educational institution endorses the creditor's private education loan program.