Higher Education Loan Program Legislative Report

Finance and program design options

December 2012

Report from the Higher Education Loan Program Work Group

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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 required the Washington Student Achievement Council to convene a work group of technical experts to identify and describe finance and program design options for the Legislature's consideration.

In addition to Washington's historical commitment to need-based financial aid programs, the state already offers several forgivable loans, loan repayment programs, and an aerospace student loan, all administered by the Student Achievement Council. Two options discussed by the work group for providing initial and ongoing funding for the HELP program were: 1) sell Lottery-backed revenue bonds; 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 work group identified various student populations with gaps in their college financing needs, but did not prioritize 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 insufficient to cover tuition. Students not served by the State Need Grant tend to borrow more in the federal loan programs. Overall, the work group believed a state loan program could provide several benefits to students, although not all members agreed that the program represents the most favorable option for controlling student debt and making higher education affordable to more residents.

The report begins with background information and options for initial and ongoing funding of the HELP program and reserve requirements. Program design components are discussed, including interest rates and default risks. A needs assessment outlines potential populations (including the State Need Grant-eligible population) that could benefit from a state loan program, and it outlines the benefits HELP could provide. Administrative considerations are discussed should HELP be funded. A list of work group members, an overview of federal and private student loan programs, and other relevant information are provided in report appendices.

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 (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:

- Low-interest educational loans to resident students;
- Targeted loan-repayment for students meeting certain criteria;
- Reduced interest rates for existing loans;
- Conditional loans that can be forgiven in exchange for service; and/or
- Emergency loans to assist students until other state and federal funding are 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 work group 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 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

The Great Recession that began in late 2007 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 the access and affordability levels necessary to produce enough college graduates to sustain future economic growth.

Despite these challenges, the state has a longstanding commitment to provide opportunities for postsecondary education to all students, regardless of income. As leaders of 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 more than 72,000 needy students in 2012-13 through the State Need Grant (SNG) program. The state also supports a work study program and the College Bound Scholarship, which is an early commitment scholarship for students from low-income families.

HELP permits conditional scholarship or loan repayment options, 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, which is described in Appendix D.

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

II. HELP Program Financing Options

Chapter II – Financing Options Highlights

Fiscal consultants identified two 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 percent and additional reserve of 3 percent and a projected volume of $250 million would be funded at $20 million.

The level of funding required for a state student loan program depends upon 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 funding for the HELP student loan program.

The first option is selling revenue bonds. 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.

A second option that could improve loan availability for students would be to encourage more state-backed private student loans from credible financial institutions.

SELLING OF REVENUE BONDS AND USE OF LOTTERY FUNDS

In 2004 the Student Loan Finance Association (SLFA) discontinued issuing bonds for student loans in Washington. The 2007 the Legislature gave the Washington Higher Education Facilities Authority (WHEFA) permission to issue taxable and tax-exempt bonds to acquire or originate student loans (RCW 28B.07).

In late 2007, two events occurred that impeded WHEFA's ability 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 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 bond market for issuing student loans has developed. The ability to successfully issue student loan bonds now depends on the bonds having security backing by a state guarantee. Alternatively, if the issuer is large enough, the transaction must include a significant reserve fund. WHEFA does not have sufficient resources to provide a reserve fund, and the state to date has not elected to provide a guarantee. WHEFA continues to research and monitor the student loan bond market to see if a new opportunity or program develops.

Several states (Alaska, New Jersey, Hawaii, Minnesota and Texas) use revenue bonds to support their student loan programs. Minnesota just completed a $375 million bond sale to support its student loan program, called SELF. That sale provided $85 million in student loans for 14,000 students in the 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. Another example is Texas, which uses revenue bonds to fund its two loan programs, the College Access Loan (CAL) and the Health Education Loan Program (HELP).

In Washington, Lottery funds previously used for Safeco Field bond retirement could be dedicated to provide debt service for revenue bonds issued to support 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 million and $6 million, depending upon 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 its 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. Several decisions that need to be made related to program infrastructure are addressed in the *Chapter III – HELP Program Design Options*.

As the loan program matures in approximately five years, 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 its 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 student loan option would be to encourage private student loans from credible financial institutions. Currently, most financial institutions in the state offer few if any 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 infrastructure in place to originate and service loans. 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 become involved in the private student loan program by acting as a guarantor to state financial institutions that make these student loans. The structure could be very similar to the U.S. Small Business Administration's (SBA) loan guarantee program.

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 fee amount 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 financial institutions to decide what level of risk they are willing to accept. The percent of coverage would be based upon 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 administer 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 5 percent and an additional reserve amount of 3 percent is included, a total of 8 percent would be needed to fund 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 12:1.

VIABILITY OF TWO OPTIONS

Each option must be weighed against what the state can afford in challenging economic times. The selling of revenue bonds may be the most straightforward approach when a stable revenue source, such as Lottery proceeds, exists.

If, however, financial institutions can be encouraged to provide more student loans via a loan loss reserve program, then this likely would serve as a more affordable option for the state. The question 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) that 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 exploring the establishment of a state bank, but no state has found it a viable option 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 percent.
- 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 would need to be monitored for compliance.

Approximately 20 states 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.

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 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-interest rate option for families when compared with federal parent PLUS (Parent Loan for Undergraduate Students) loans of 7.9 percent and private loans of up to 25 percent.

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 upon creditworthiness and other factors. Private student loan program interest rates currently are running as low as 2.92 to 13.79 percent, for students with maximum creditworthiness, and as high as 19 to 25 percent for students with minimum creditworthiness.

By comparison, the federal parent PLUS loan is credit-based and offers a 7.9 percent fixed rate with a 4 percent origination fee. In addition, Federal Direct Stafford loans offer 3.4 percent for subsidized loans and 6.8 percent for unsubsidized loans.

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

Texas is the only state that offers a zero-interest rate for its "B on Time Loan Program," which encourages students to complete degree or certificate programs on time. If successful, students only are required to pay back the principal. Further, students are offered possible 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 now offer fixed rates that appear to compete with Stafford rates which are as low as 3.4 percent. 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 upon the loan repayment term selected, credit score, or other factors.

Washington will need to determine whether the HELP program will support a fixed or variable rate, or combination of both. It also will have to determine how the rates coincide with the funding model of securing program longevity while maintaining market competitiveness.

DEFAULT RISK - CREDIT SCORING AND CO-SIGNERS

A credit score is one of the most effective means of determining an applicant's creditworthiness. However, younger students often do not have a credit history. As such, programs typically factor a credit score based upon the co-signer's credit worthiness. Research of other state loan programs has revealed restrictions on the age of co-signers, and that credit scores of those co-signers generally range from 575 – 700.

The HELP program would need to establish 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.
- No more than a minimum percent of credit bureau balances past due.

Although the new program likely would 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: immediate; interest-only; and deferred. Only Maine appears to subsidize loans while students are attending school and performing internships.

- **Immediate repayment** – Requires monthly payments of both principal and interest while enrolled in school, followed by up to 10 years for repayment of the remaining balance.
- **Interest-only repayment** – Requires monthly payments of accrued interest while enrolled in school and during a grace period, followed by up to 10 years to repay remaining balance after the grace period.
- **Deferred repayment** – Requires no payments until six months after graduation. Interest will be charged and added to the balance, followed by up to 10 years to repay the balance.

Generally, the length of repayment for other state-based loan programs is 10 to 15 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, after dropping to less than half-time enrollment, or upon withdrawal from the student's institution.

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

DEFERMENTS AND FORBEARANCE

Student borrowers who experience temporary difficulties during repayment may be allowed to suspend payment. Providing such borrowers with repayment options can lead to better repayment patterns and minimize delinquencies.

Two repayment assistance options available to students in such situations are deferment and forbearance.

- In a deferment, students are not required to make payments under some circumstances (such as enrollment in college or active military duty), although loan interest may be paid.
- Forbearance is a period when payments temporarily are suspended or reduced, usually due to financial hardship.

Both deferment and forbearance allow borrowers to temporarily stop making loan payments. However, interest continues to accrue on the unpaid principal balance.

Acceptable “conditions” that could be applied to students in order to qualify for deferment are:

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

Forbearances could be made available to students who do not qualify for deferments or experience economic hardship for up to three years. Documentation of continuing financial hardship could be required 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 offer private education loans. A broad overview of the requirements is provided in Appendix H.

IV. Student Financial Needs Assessment

Chapter IV – Student Need Highlights

- Student loans represent 50 percent of the $2.4 billion offered to Washington's needy students.
- More than 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.
- More than half of State Need Grant students borrow on average about $7,000.
- A variety of student populations could be targeted with HELP
  - Lower-income students who have greater unmet need (need not covered by aid).
  - Upper-income students who borrow more and are often limited to federal loans.
  - Dependent students who 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.

Although the number of students who ultimately could benefit from HELP is small compared to the overall need, various groups of students with financial need potentially could benefit from the HELP loan program. For example, nearly 80,000 resident undergraduate students who attended full-time for the entire academic year had significant amounts of un-met financial need, as described in this chapter.

The HELP proviso also requires this report to address the relationship between the HELP loan program and the State Need Grant-eligible population, without identifying which students should be supported by the state loan program.

The work group did not recommend which student population should be targeted by the HELP program, but the report includes information based on financial aid data about the financial gaps that exist among various groups between their financial needs and available financial aid.

In 2010-11, $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 students' expected financial contributions from their families are 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

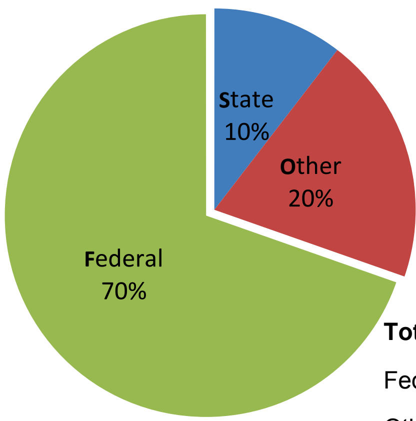
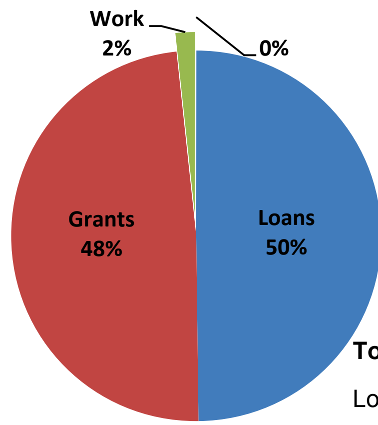


Figure 2
Financial Aid by Type 2010-11



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

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).

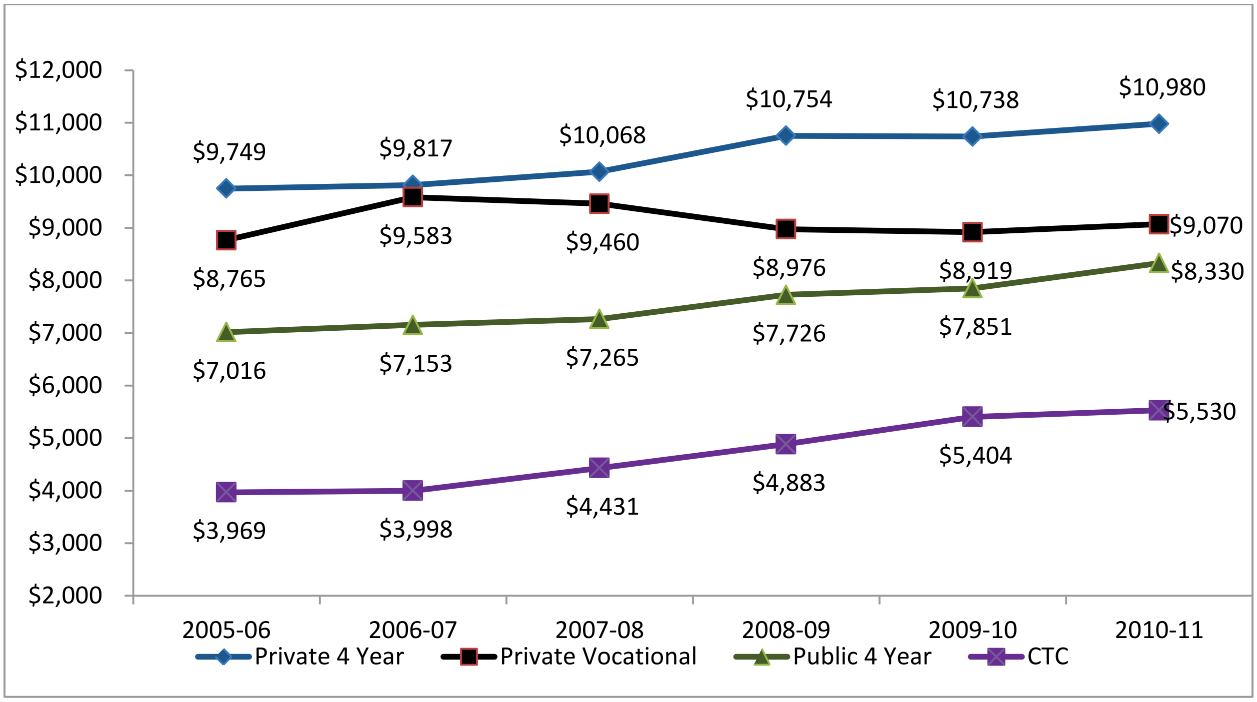
Figure 3: Annual Student Loan Debt 2010-11 Resident Undergraduates

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

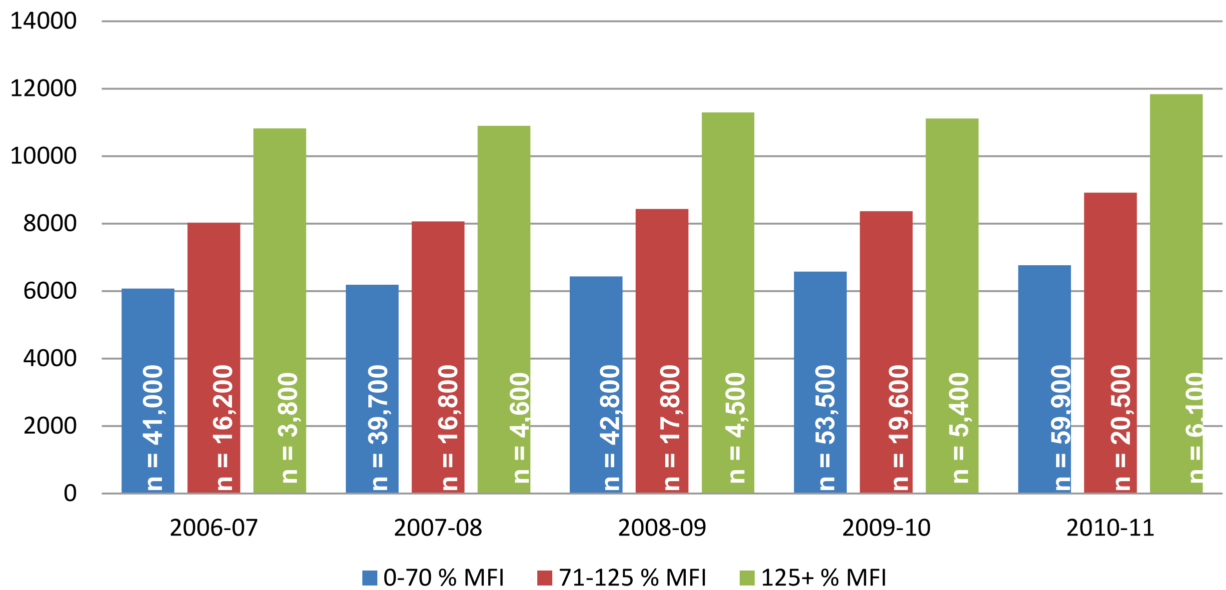


Students from higher-income families who borrow take out higher amounts of loans than their peers, but fewer of these higher income-level students borrow overall. Loan amounts for borrowers from lower-income families have been increasing at a higher rate than the borrowing of higher income families.

As shown in Figure 5, 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.

However, federal loans have annual limits (see Appendix I – Federal and Private Student Loan Overview). This means that students who already are 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. The amounts borrowed are lower for the dependent students, largely due to the federal loan limits by dependency status (see Appendix I - 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 do needy independent students, except in the two-year colleges, both public and private.

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

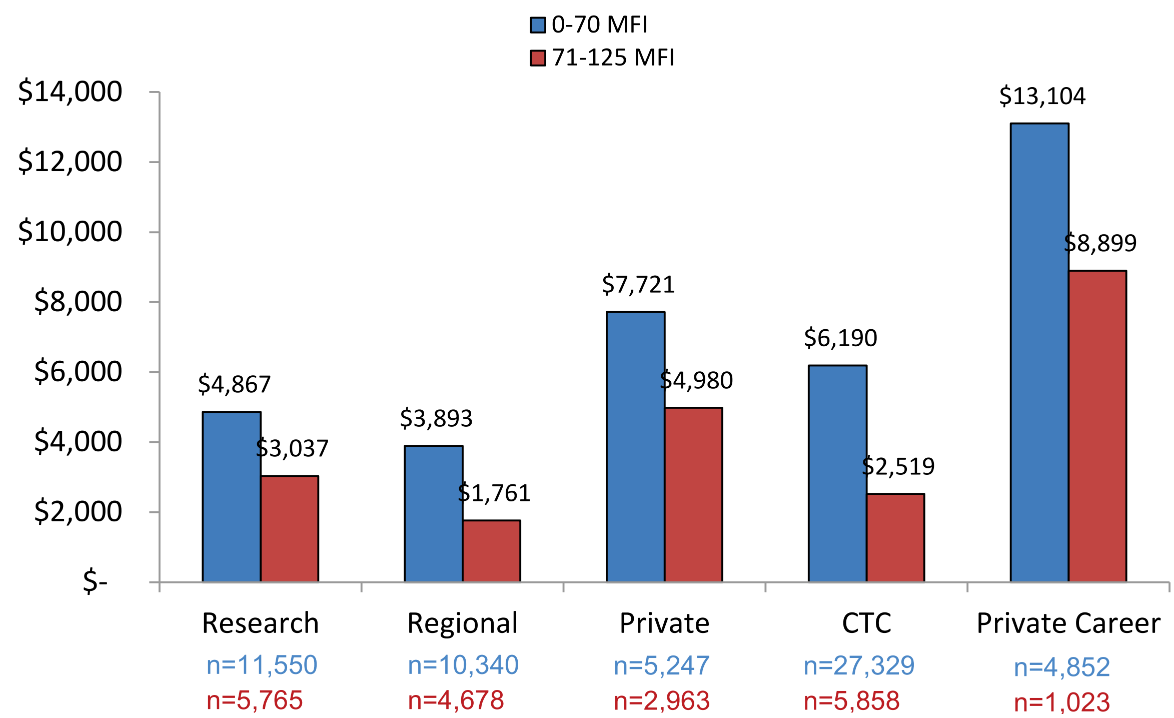
	DEPENDENT				INDEPENDENT			
Sector	Avg. Loan Amount Needy Students	Number of Needy Students	Avg. Loan amount Non-Needy Students	Non Needy Students	Avg. Loan Amount Needy Students	Number of Needy Students	Avg. Loan Amount Non-Needy Students	Number of Non Needy Students
Public 4-Year	$5,812	22,234	$6,214	7,100	$8,010	13,430	$9,200	357
Private 4-Year	$6,679	6,904	$6,153	1,206	$9,899	3,204	$8,759	79
CTCs	$3,450	5,430	$3,920	2,279	$5,839	28,427	$6,414	1,196
Private Career	$6,280	2,045	$5,534	258	$7,696	4,188	$6,775	62

UNMET NEED DIFFERENCES BY SECTOR AND DEPENDENCY STATUS

Lower-income students have the highest unmet need (need not covered by aid), regardless of sector, as shown in Figure 7.

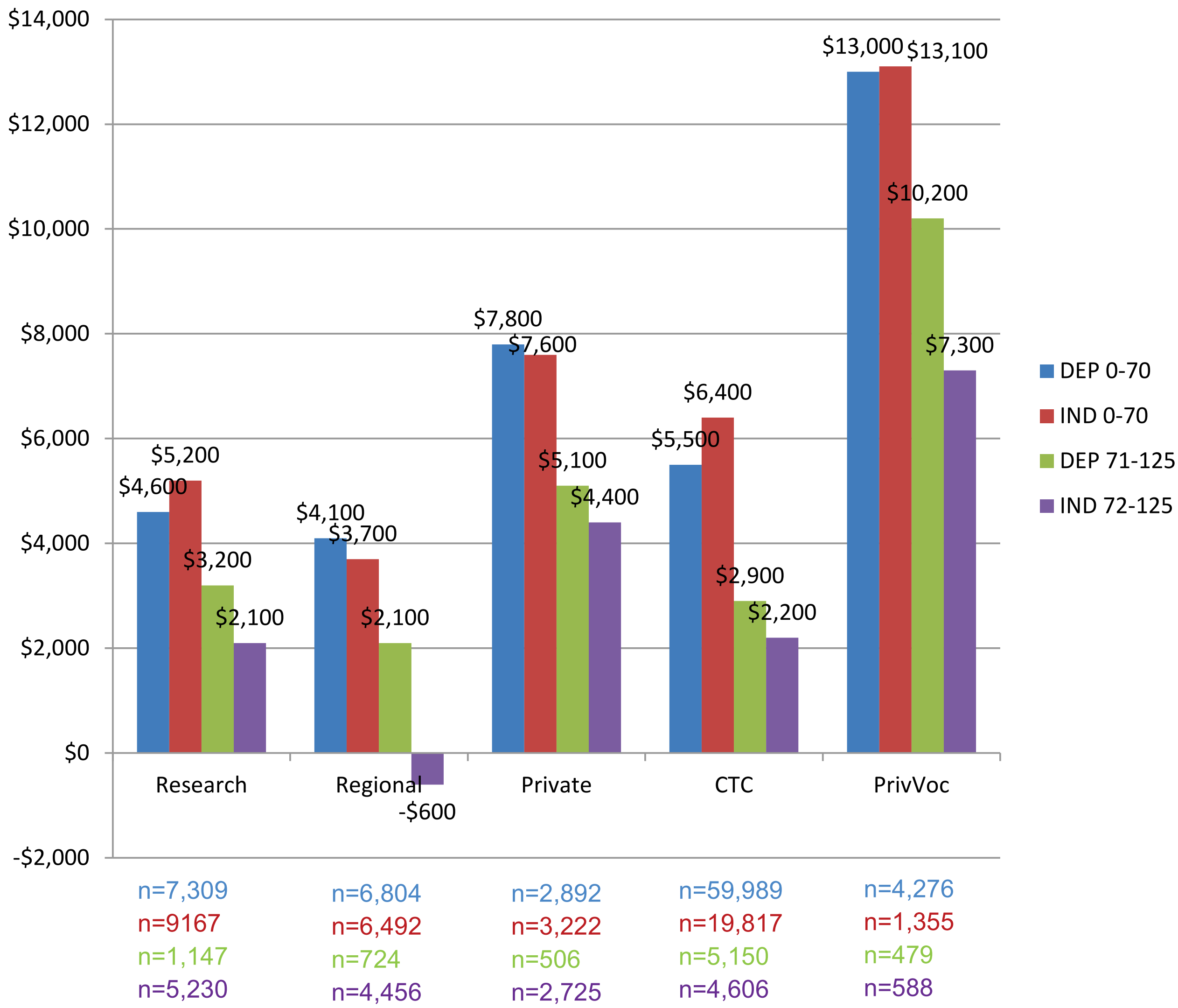
The average unmet need for resident undergraduate students also varies by dependency status, as shown in Figure 8. The independent students in the lowest income group have higher unmet need in the public research and community college sectors, but less in the private four-year and public regional sectors.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

Figure 7: 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 8: 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.

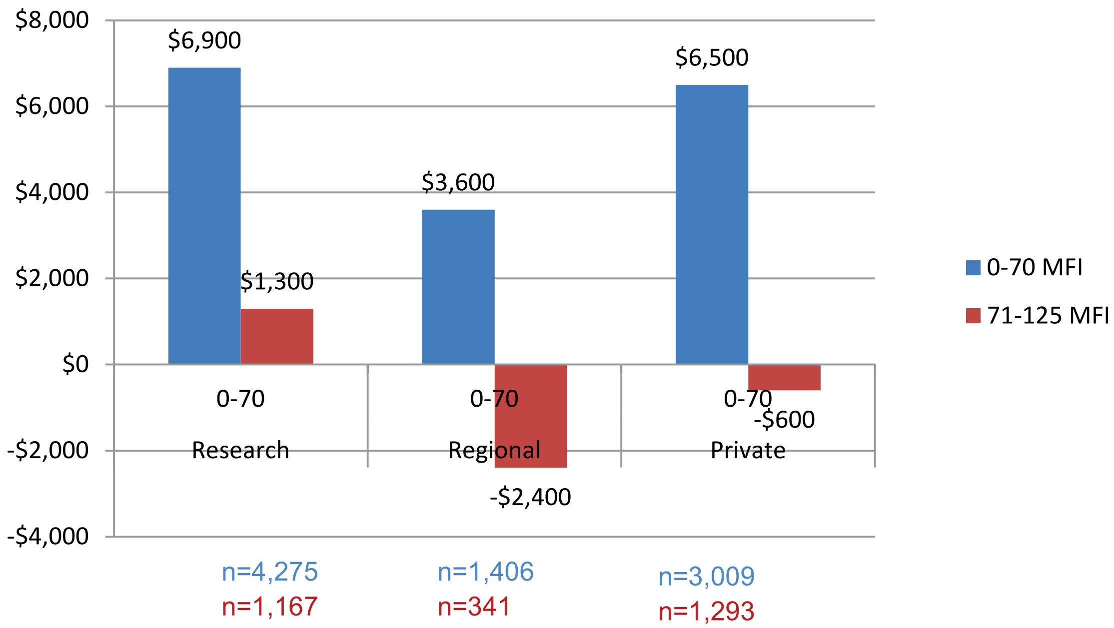
GRADUATE STUDENT NEEDS

Graduate students primarily tend to access federal student loans because they have less opportunity to receive grant assistance; they are not eligible for Pell Grant or State Need Grant.

Nearly 12,300 needy graduate students borrowed federal student loans 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 lower unmet need compared to those attending research or private four-year institutions, as shown in Figure 9.

Figure 9: 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), with one being highest.

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. Only 2 percent of SNG recipients receive only SNG.

As noted in Figure 10, nearly all SNG recipients receive other grant assistance and about half borrow student loans and there are differences across sectors.

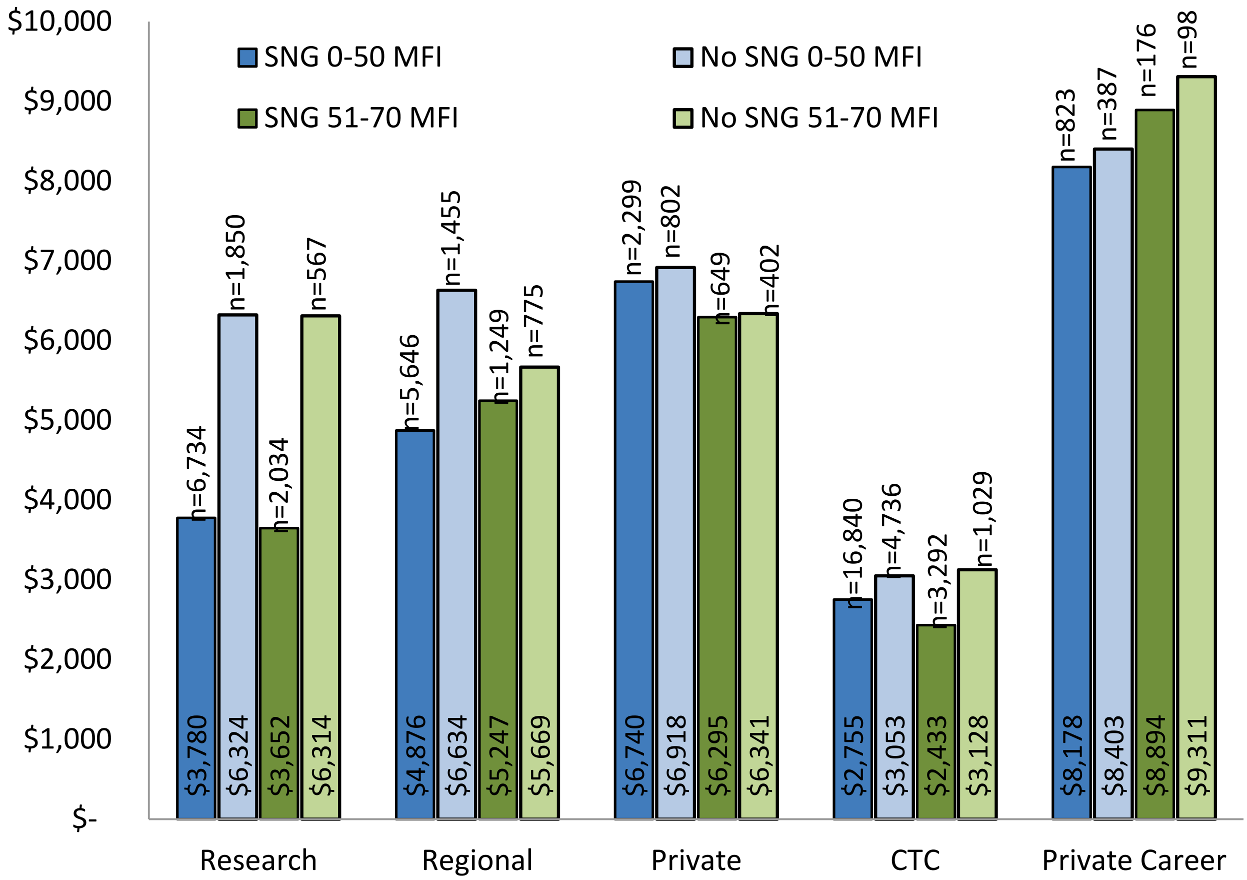
Figure 10: Average Type of Aid Received for SNG Recipients, 2010-11

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

Figure 11: 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 creation of a low-cost state loan program for students in Washington could provide the following benefits:

- Addressing the "gap" 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 may be advisable to design it 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.
- Help in securing a loan servicer with the experience and existing systems to manage the program.

V. Administrative Considerations

Chapter V Administration Highlights

- Program administration would require start-up funding until such time administrative funding could be secured from origination fee and loan repayments.
- The Council already possesses technical systems, staff and infrastructure that can be used to administer the HELP program.
- Contracts could be signed with several qualified loan servicers in the state to provide loan origination and servicing activities.

COUNCIL ADMINISTRATION CONSIDERATIONS

Procedure and Policy Development

Program startup can involve a considerable amount of effort. Several decisions related to loan program set up would need to be made before the program could 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 a web-based data base.
5. Creating or adapting contracts for all relevant third party servicers.
6. Promoting the 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.

Once the program is established, several variables 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 enables efficient operation of the Council's automated financial aid programs. The portal is customized for each program and is capable of automatically processing program applications, retaining lists of program recipients, automating payments, tracking outstanding balances, generating notifications and tracking program data.

The Council's portal also can be used to administer the HELP program. HELP program staff could work closely with information technology programmers to meet 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 for at least several months. 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.

Application Process

An application form would need to be developed, in addition to the FAFSA, to evaluate whether the student meets the criteria established for 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 state loans through the Student Achievement Council portal system. The financial aid office could certify the amount of remaining need after awarding other aid.

Once approved, the state loan could be incorporated into the student's aid package. Selection could be based on a first-come, first-served basis for applicants who meet 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 that clearly defines the obligations of both parties involved in the loan.

Payments could be automated once a recipient sends in the required contract. Verification steps would ensure that 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 forms of aid to assist with covering 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 in which 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 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 is scalable depending on how much of the loan administration is dealt with in-house. For a fully in-house operation, staffing needs would be significant. The number of accounts also will affect operational costs. Economies of scale would be created as a program size increases. 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 ultimately would 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. Organizations that can play roles 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 for third-party servicing of loans are:

- **Origination only** – application and disbursement process are completed, the loan is transferred 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.

For the HELP program, the state could identify an organization to assist with partial or full management of the loan program if it were deemed a cost savings to the state.

Key Features and Functionality

Key features and functionality that need to be considered for administrative success are 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. To effectively manage loan records, providers should support features like electronic interface with the most current formats used by schools and the national databases.

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. A selected provider should be able to demonstrate extensive experience in these areas.

ROLE OF INSTITUTIONS

The role of institutions in the administration of a state loan program will need to be considered. It is likely that institutions may assist with selection, payment and eligibility verification, and as such an administrative cost allowance from the origination fee should be considered.

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 Work Group 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 more than 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 time for students 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 more than $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 percent and 2.96 percent 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.banknd.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://bankdnd.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.

Appendix I: Federal and Private Student Loan Overview

Federal aid, in the form of loans, grants, and tax credits, makes up more than two-thirds of direct aid to all postsecondary students (College Board, 2011). Nationally, private student loans make up less than 15 percent of total student debt and contributed less than 7 percent to the estimated $112 billion in 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 of these programs 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 and graduate study.

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

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 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, borrowing limits 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 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 more than 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 more than 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 ten 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 upon 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 private-loan borrowing 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 2010-11 (College Board, 2011).