Federal & Private Student Loans

Presentation to the Infrastructure Financing Task Force

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Loan Type Comparison

- Generally, Federal Stafford loans are the best option for students:
    - Lowest interest rates
    - Interest does not accrue to the student while in school
    - Favorable repayment terms
    - Caps designed to prevent over-borrowing

- PLUS loans can be a good source of funding for parents seeking to help children through college and for graduate students

- Private loans allow students who need to borrow more resources the opportunity to do so, often however at much higher interest rates and with less flexible repayment terms

Federal Student Loans for Undergraduates

- In 2009, congress required Stafford loans to be provided through **Direct Stafford** loans from Dept. of Education rather than bank-based loans
  - Subsidized loans for students with financial need
    - No interest while in school at least half-time and during grace and deferment periods
    - Current interest rate is 3.4% fixed
  - Unsubsidized loans for students
    - Interest accrues from first loan disbursement
    - Deferred interest adds to total loan repayment obligation
    - Current interest rate is 6.8% fixed
- The **Perkins** loan is a campus based program (participating schools receive a limited appropriation)
    - Subsidized loans for students with financial need
    - Current interest rate is 5% fixed

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Federal Stafford Loans: Limits

Current UNDERGRADUATE federal loan limits:

Student's Academic Year	Dependent * Undergraduate Students	Independent Undergraduate Students
First Year	$5,500 with no more than $3,500 in subsidized loans	$9,500 with no more than $3,500 in subsidized loans
Second Year	$6,500 with no more than $4,500 in subsidized loans	$10,500 with no more than $4,500 in subsidized loans
Third and Beyond (each year)	$7,500 with no more than $5,500 in subsidized loans	$12,500 with no more than $5,500 in subsidized loans
Aggregate loan limits at graduation	$31,000 with no more than $23,000 in subsidized loans	$57,500 with no more than $23,000 in subsidized loans

* Dependent students must report their parents' income and assets on the FAFSA in addition to their own

Cost of attendance also limits federal borrowing combined with other financial aid received

Federal PLUS Loans

- Designed for parents of dependent students to help pay their child's educational expenses
- Also available to graduate and professional students to cover their own educational expenses
- PLUS loans are conditioned on the borrower's positive credit history
- Fixed 7.9% interest rate for borrowers, charged from the date of first disbursement until the loan is paid in full
- Annual limits on PLUS loan borrowing equal to the difference between cost of attendance and other financial aid received
- Borrower may defer repayment or qualify for loan forgiveness in certain circumstances

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Private Loans

- Designed to provide supplemental funding to cover unmet student need
- Private loans do not have caps, students may borrow amounts up to school certified cost of attendance
- Private loans are essentially not regulated by the government
- Loans issued by banks or credit unions
- Loan approvals depend on credit worthiness of the borrower/co-signer
- Private loans often have variable interest rates
- Interest rates on private loans are higher than with federal loans, often significantly higher
- Repayment terms are often less flexible with private loans
    - Typically no income-based repayment plans
    - Typically no loan forgiveness or deferment options

Loan Trends in Washington

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Loan Trends Summary

1. Student borrowing is increasing at all levels

2. Needy students from higher income families who borrow take out higher amounts of loans than their peers, but fewer students borrow at the higher income levels

3. The amounts students borrow has been increasing more quickly for students from lower income families (due in part to higher income students already borrowing at the "cap")

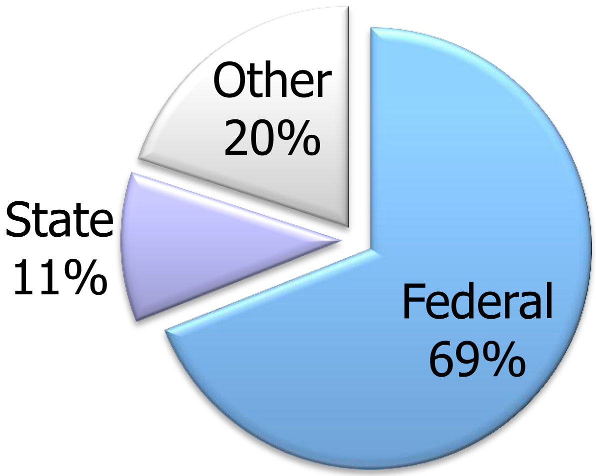
4. "Over-borrowing" (>$8,000 in one year) increasing at a faster rate in community colleges

5. Although underreported, private loan borrowing has decreased significantly due to changes in the credit market
   $43 M to needy students in 05-06 to 07-08
   dropping to $32 M and $28 M in 08-09 and 09-10, respectively

Loans as Percentage of Total Aid to Needy Students 2010-11

$2.4 billion expended on 186,000 needy students

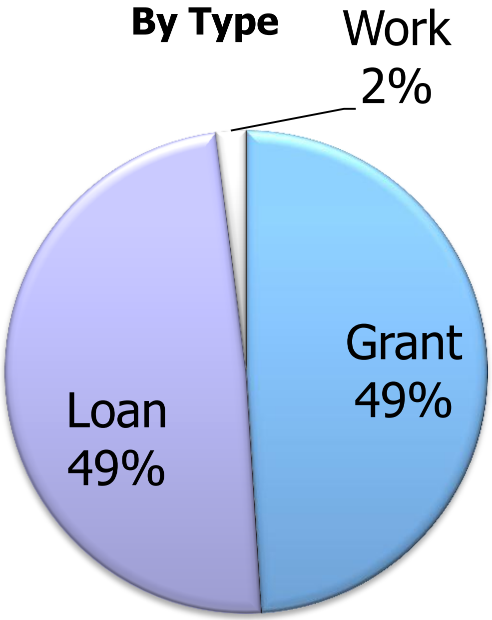
By Source



Total: $2.397 Billion

Federal:	$1.65 billion
State:	$264 million
Other:	$479 million

By Type



Total: $2.397 Billion

Grant:	$1.17 billion
Loan:	$1.17 billion
Work:	$41 million

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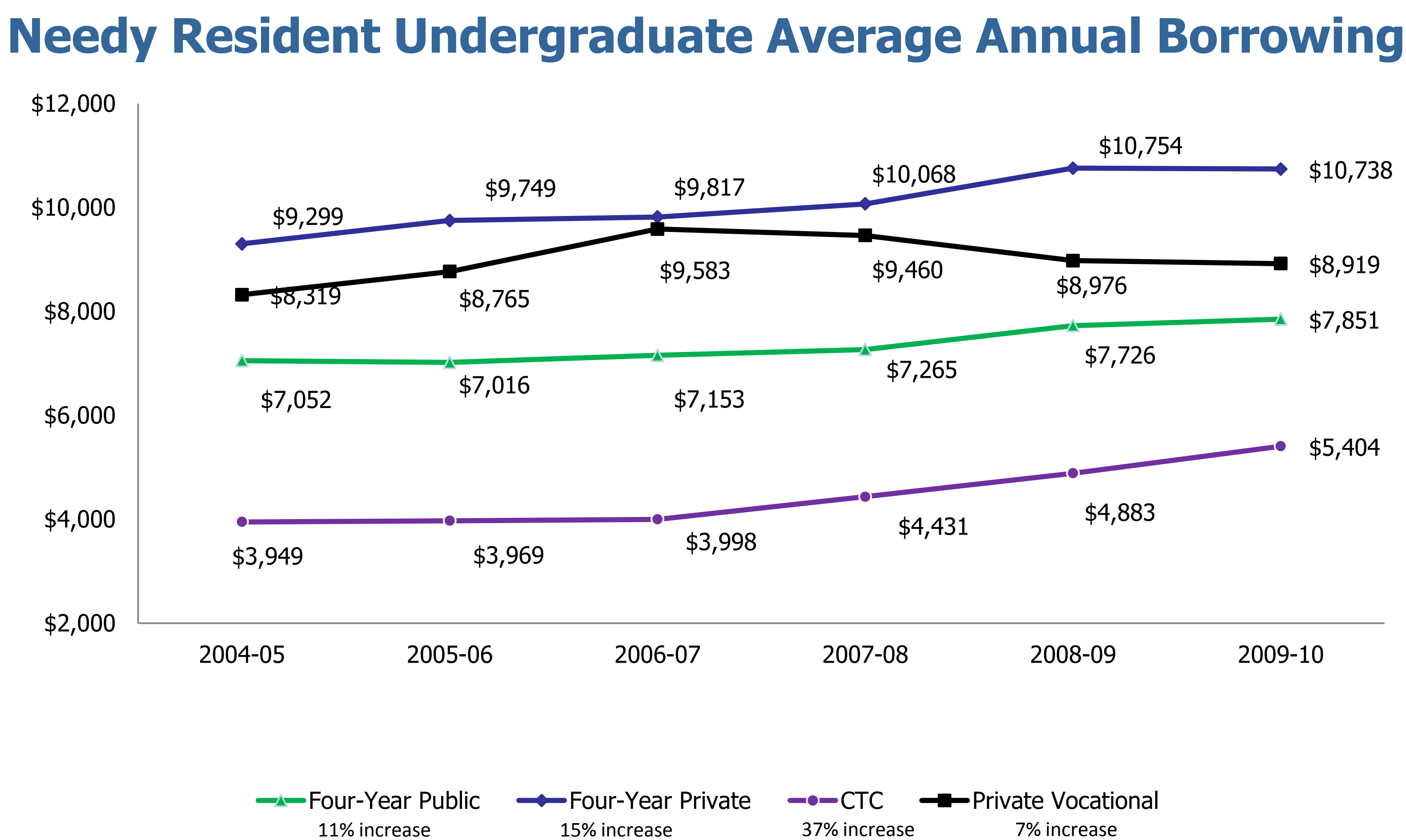
Student debt in 2009-2010

- About 59% or 108,476 needy students borrowed.
- Of these borrowers, 72% were resident undergraduates.
- 85% of resident undergraduate borrowers were needy.
- Average loan amounts were slightly higher for non-needy students.

Sector	Needy Borrowers	Average Annual Loan	Non Needy Borrowers	Average Annual Loan
4-Year Public	32,660	$7,862	8,555	$10,757
2-Year Public	30,100	$5,404	3,859	$4,779
4-Year Private	9,513	$10,738	1,123	$11,046
Private Career	6,821	$8,919	436	$9,172
Total	**78,589**	**$7,411**	**13,913**	**$9,119**

Note: HECB began collecting data from campuses on ALL federal loans, not just need-based recipients for 2008-09 and beyond.

Annual amounts borrowed increasing for all sectors



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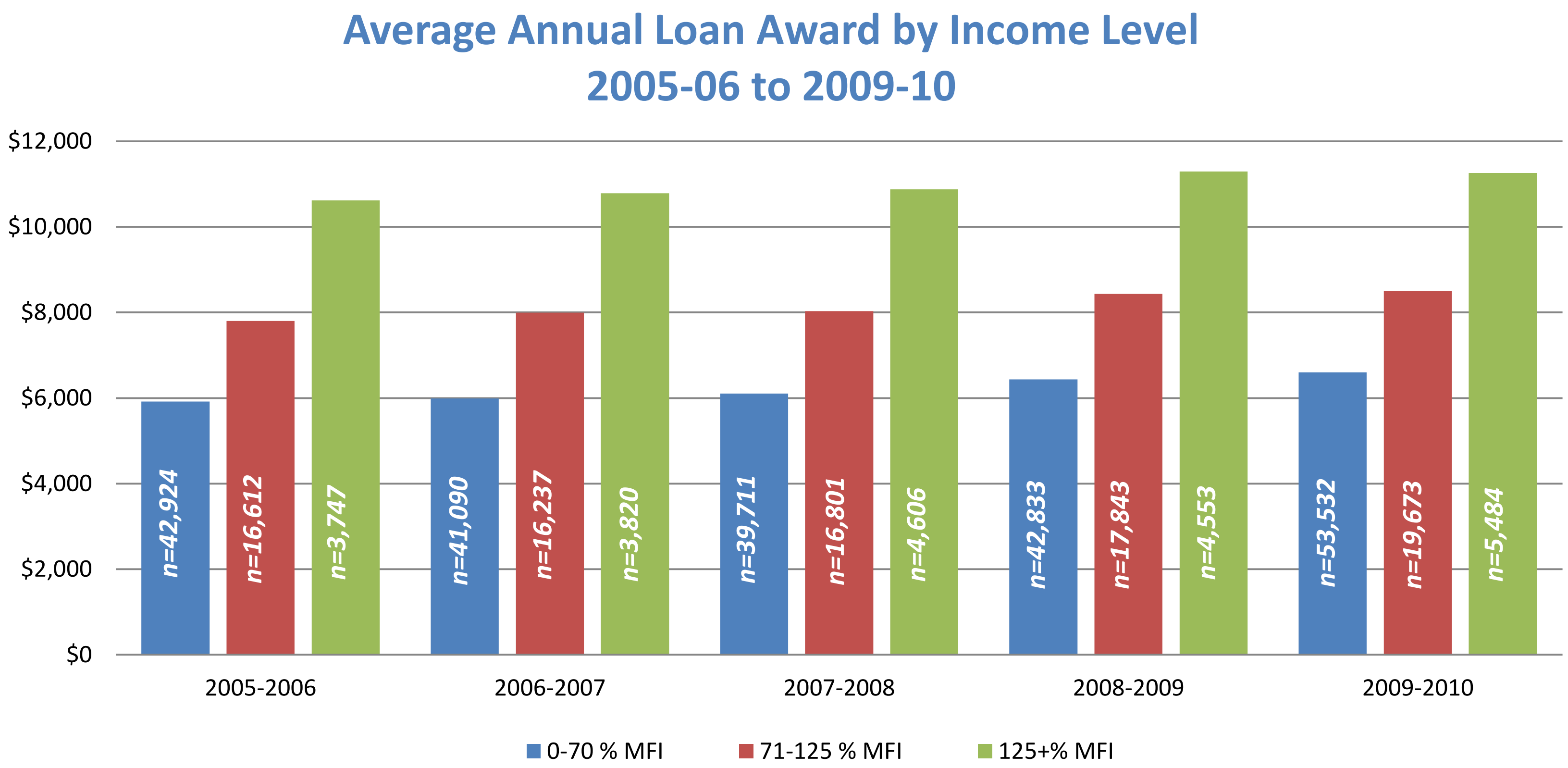
Borrowing levels increasing for lowest income



Source: HECB Unit Record Report submitted by 68 SNG participating institutions
Notes: Washington resident undergraduates students reciviing need based aid.

Opportunity or Burden Analysis

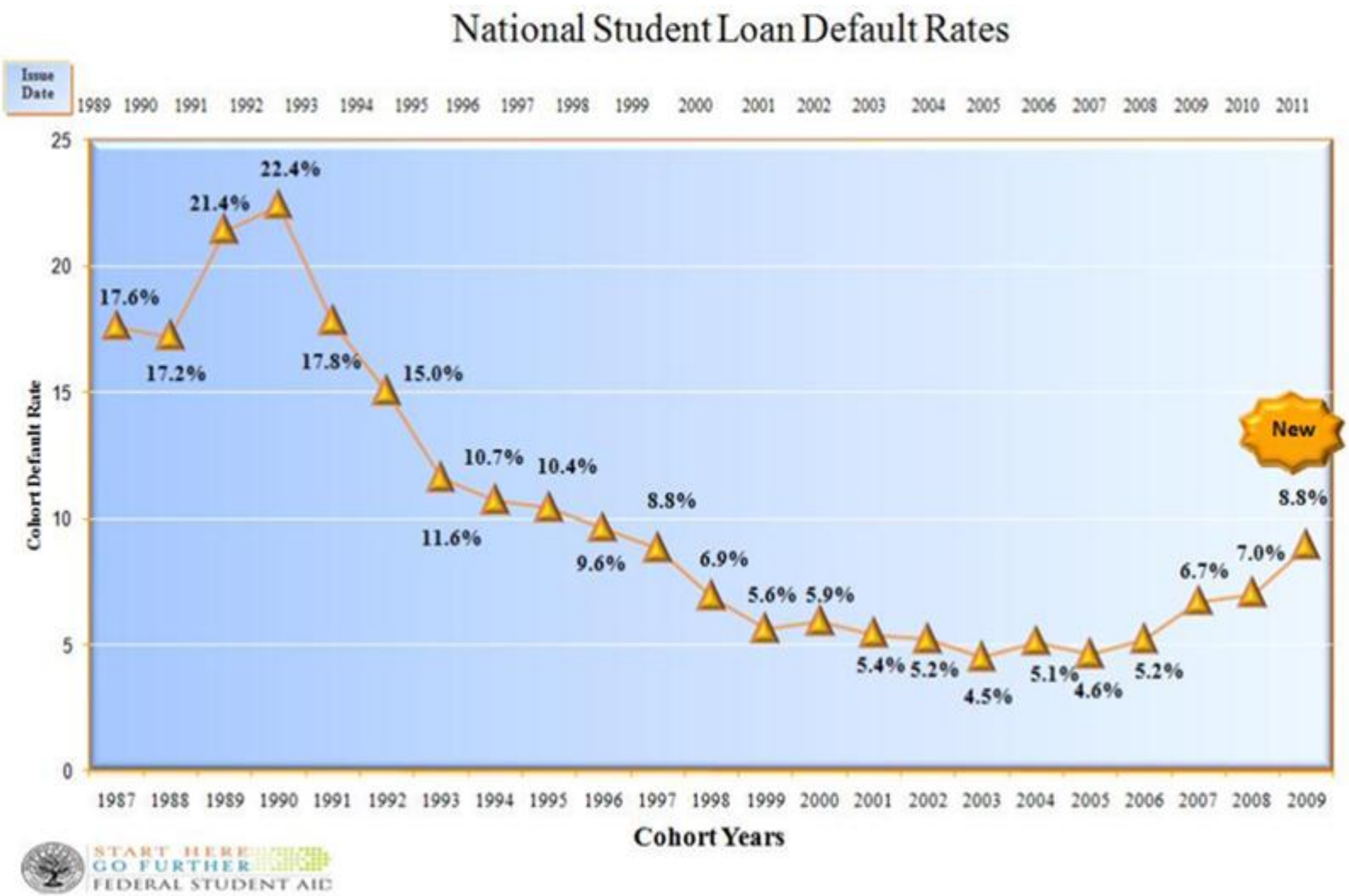
- Federal loans are broadly accessible and available at virtually every Title IV participating campus (the Seattle CC District and Centralia do not participate in Stafford loans)
- Federal loans require entrance and exit counseling to provide information regarding repayment obligation, benefits and consequences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

Default Rates in WA

- The number of borrowers in default was 3,768
- The number of borrowers who entered repayments was: 52,587
- The borrower default rate was 7.1% (Range: 16% AZ to 3.4% - North Dakota and Montana)

Source: U.S. Department of Education, Financial Aid “Official Cohort Default Rates,” 2009-2010 available at: http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html

National Student Loan Default Rates



Source: U.S. Department of Education, Financial Aid “Official Cohort Default Rates,” 2009-2010 available at: http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html