Student Loan Synopsis – September 2016

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Introduction

IBHE's Affordability Action Team produced five core recommendations during 2015 in order to guide its work moving forward. Of these five recommendations, a few were determined to link to the issue of student financial assistance and student loans and include: (1) Ensuring students and parents are well-informed about the variety of financial assistance available; (2) Establishing intrusive advising at Illinois institutions to assist students with financial aid decisions throughout their academic careers; and (3) Potentially redesigning financial support programs. These core recommendations are meant to assist the IBHE Board in its continued work to enhance affordability for all students and parents in Illinois. What follows is some additional information on the subject of student loans as taken from the Affordability Team's recommendations and various additional resources.

Private vs. Federal Student Loans

The two primary categories of student loans include private loans, or non-federal loans made by a lender such as a bank, credit union, state agency, or school, and federal loans which are funded, as the name implies, by the federal government. Federal loans have typically offered better rates, although in today's market, private rates may at times appear competitive with federal rates but may limit eligibility to the best qualified at a viable rate subject to various increases during the term of the loan.

In terms of facilitating the best overall loan option for students, participation in loan repayment plans that correlate to borrowers' income levels appears to resonate more and more. If outstanding federal student loan debt is higher than annual income (capped at 10-20% of discretionary income), or if it represents a significant portion of annual income, an attractive preference for many students is an income-driven repayment plan. Private loans, by contrast, are much more stringent with their repayment plans, including no ability to structure a plan based upon income level. Wells Fargo and Discover Bank announced that they would help private loan borrowers modify their plans late 2014, but there is still little recourse. Overall, the federal loans come with a package deal that is more attractive, including Direct Consolidation Loan, temporary postponement or lowering of payments, subsidized loans, lower interest rates, and several repayment plans.

Most colleges and universities are required to provide student loan entrance and exit counseling which can prove quite beneficial to those who take advantage of it. There is also a new **Experimental Sites Initiative** that was launched by the U.S. Department of Education on August 15, 2016 inviting schools to participate in order to test alternative loan counseling initiatives. Schools have until September 29, 2016 to submit letters of intent to participate. According to ISAC, information acquired from their outreach on private loan borrowers seems to suggest two main schools consisting either of families new to the process that have received information about private loans before they understand how the financial aid process works, and students/families in dire circumstances that are looking to use private loans after all student aid (not parent) has been exhausted.

Source: Institute of Government & Public Affairs, University of Illinois, The Illinois Report 2014, Issues in Higher Education: Student Aid and Student Debt; ISAC; U.S. Dept. of Education

<u>**Private Loan Repayment Options**</u>	<u>**Federal Loan Repayment Options**</u>
The most effective means of repaying a private loan is to consolidate through refinancing, but borrowers must have good credit standing in many cases.	**Standard repayment plans** allow borrowers to fix their payment amounts for up to 10 years (30 years for Consolidated Loans). All borrowers are eligible.

Basic Repayment Plans
Graduated repayment plans are lower at first and then increase over time, *usually every two years.* All borrowers are eligible.
Extended repayment plans may be fixed or graduated and are good for up to 25 years. Direct Loan and Federal Family Education Loan (FFEL) borrowers must have more than $30,000 in outstanding debt to be eligible.
Income-Driven Repayment Plans
Income-based repayment plans cap borrower payments at 10% or 15% of their discretionary income, extend their loan term to 20 or 25 years (depending on when first borrowed), and forgive the remaining balance at the end of the term.
Pay As You Earn (PAYE) repayment plans cap borrower payments at 10% of their discretionary income, extend their term to 20 years, and forgive their remaining balance at the end of the term.
Revised PAYE plans are open to all borrowers with federal direct loans, regardless of their income or when they first borrowed. Caps monthly payment at 10%, extends loan term to 20 years if undergraduate; 25 years if graduate student, and forgives remaining balance at end of term.
Income-contingent payment plans are the oldest of the four income-driven payment plans and the only one available to borrowers with Parent PLUS loans. Caps monthly payment at **20%** of income, extends term to 25 years, and forgives remaining balance at end of term.

The following chart shows the annual and aggregate limits for subsidized and unsubsidized loans.

<u>Year</u>	**Dependent Students (except students whose parents are unable to obtain PLUS Loans)**	**Independent Students (and dependent undergraduate students whose parents are unable to obtain PLUS Loans**
First-Year Undergraduate Annual Loan Limit	**$5,500** - No more than $3,500 of thise amount may be in subsidized loans.	**$9,500** - No more than $3,500 of this amount may be in subsidized loans.
Second-Year Undergraduate Annual Loan Limit	**$6,500** - No more than $4,500 of this amount may be in subsidized loans.	**$10,500** - No more than $4,500 of this amount may be in subsidized loans.
Third-Year and Beyond Undergraduate Annual Loan Limit	**$7,500** - No more than $5,500 of this amount may be in subsidized loans.	**$12,500** - No more than $5,500 of this amount may be in subsidized loans.
Graduate or Professional Students Annual Loan Limit	Not applicable (all graduate and professional students are considered independent)	**$20,500** (unsubsidized only)
Subsidized and Unsubsidized Aggregate Loan Limit	**$31,000** - No more than $23,000 of this amount may be in subsidized loans.	**$57,500 for undergraduates** - No more than $23,000 of this amount may be in subsidized loans. **$138,500 for graduate or professional students** - No more than $65,500 of this amount may be in subsidized loans. The graduate aggregate limit includes all federal loans received for undergraduate study.

<u>Indiana University Financial Literacy Efforts</u>

As an example of the impact of improved communication, Indiana University (IU) enacted a program during the 2012-2013 academic year that enables students to borrow less by telling them how much they already owe when they are taking out loans for the next academic year. This financial literacy effort is quickly becoming a model for the rest of the country. The University sends students letters each year telling them how much they have already borrowed, what their interest rates were, and what their monthly payment would be after graduation. In response, students appear to be borrowing less. In January 2013, IU also launched its **MoneySmarts** website to serve as a portal for financial literacy programs, providing tips about managing money, calculators to help students with budgeting and loan repayments plans, and podcasts on specific financial literacy topics. Though still too soon to determine overall impact, according to IU's Associate Vice President of University Student Services and Systems, IU's financial literacy initiatives have helped reduce undergraduate student borrowing across the university by nearly **16 percent** over two years, resulting in approximately **$44 million in debt savings.**

- Nebraska's legislature approved and the Governor signed on April 6, 2016, a measure similar to the Indiana University model whereby beginning with the 2017-2018 academic year public universities and colleges are required to provide federal loan information to students.

Available ISAC Information/Programs Pertaining to Student Financial Aid and Student Loans

High school counselors (if equipped with adequate time, training, and resources) play a key role in connecting students with college planning resources. ISAC complements those efforts by providing a host of services to help Illinois families more effectively navigate the college going process – from choosing a college to applying for financial aid:

- The **ISACorps,** ISAC's team of recent college graduates who work with high school students and their families throughout the state and act as near-peer mentors, can assist students at the outset by helping them make informed choices about colleges – from program fit to a real understanding of actual cost of attendance. The ISACorps provide free-of-charge Free Application for Federal Student Aid (FAFSA) completion workshops across the state to provide in-person and one-on-one assistance to students and parents. A listing of ISAC FAFSA workshops and college access presentations provided through the state is available at ISAC's Outreach Activities Calendar (https://www.isac.org/students/before-college/outreach-activitiesevent-calendar/).

- ISAC also offers a variety of net price calculators on its website (http://www.isac.org/calculators) beneficial to students and parents seeking assistance with financial aid and associated college costs. The **College Cost Calculator** provides the current national average cost of attending college as provided by the College Board for community colleges, public universities, and private institutions. Students submit current annual cost information pertaining to a specific institution in order to receive future estimated costs (next year, or 3, 4, 5, etc. years). This enables students and parents to prepare and plan for college expenditures well in advance of the application period and choose financial plans that are right for them.

- ISAC's site also includes a **Pell estimator**, to determine the amount of federal student assistance individuals might be eligible for, as well as a **MAP award estimator**, and a **loan repayment estimator**.

- A relatively newer tool available to students exploring the college-going process is the **ISAC Student Portal.** The Portal provides links to free online tools that offer college and scholarship search, online financial literacy lessons and money management tools, and career and job resources. In addition, the portal provides interactive tools such as the *4 Steps to College Checklist* and the *Financial Aid Award Comparison Worksheet* (https://studentportal.isac.org/web/guest/student/).

- The ISAC website (www.isac.org) provides detailed information and links to resources on how to complete the FAFSA, in addition to information on a variety of state and federal student financial assistance programs, and detailed explanations of loans, grants, scholarships and repayment programs.

Illinois PaCE Recommendations

Illinois Postsecondary and Career Expectations (PaCE) is a result of HR 477, adopted in May, 2015, which charged IBHE, ISBE, ISAC, and ICCB (and other pertinent stakeholders) with determining ways to facilitate college momentum for students beginning in 8th – 12th grade. Included in this were recommendations for a check-list of sorts regarding student financial aid awareness and procedures, particularly by the end of 12th grade, including:

- Attended a FAFSA completion workshop
- Completed the FAFSA
- Attend a financial aid award letter workshop
- Estimated cost of each postsecondary option
- Affordability of postsecondary options in relation to expected entry-level career salary and anticipated debt
- Terms and conditions of any scholarship or loan

These recommendations, again, coincide with informing consumers early on and ensuring families are prepared to navigate the sometimes overwhelming student financial assistance options.

Federal Direct Student Loans with a first disbursement date *between July 1, 2016 and June 30, 2017*, the following rates are fixed for the life of the loan:

Direct Subsidized Loans and Direct Unsubsidized Loans for Undergraduate Students	3.76%
Direct Unsubsidized Loans for Graduate and Professional Students	5.31%
Direct PLUS Loans for Parents of Undergraduate Students and Direct PLUS Loans for Graduate/Professional Students	6.31%

Note: Reflects a 0.53% decrease in interest rates from the 2015-2016 year.

Interest rates chart showing previous academic years

First Disbursement Date	Direct Subsidized and Unsubsidized Rate - Undergraduates	Direct Unsubsidized Rate - Graduate Students	Direct Grad PLUS and Parent PLUS Rate
July 1, 2015 - June 30, 2016	4.29%	5.84%	6.84%
July 1, 2014 - June 30, 2015	4.66%	6.21%	7.21%
July 1, 2013 - June 20, 2014	3.86%	5.41%	6.41%

Source: http://www.sacn.edu/pdfs/InterestRates.pdf

Subsidized vs. Unsubsidized Loans

Subsidized Loans	Unsubsidized Loans
U.S. Dept of Education pays interest	Borrower pays interest and it accrues over time
Covers undergraduate students only	Covers undergraduate and graduate students
Must demonstrate financal need	No requirement for financial need

- The best private student loans will have interest rates of LIBOR (London Interbank Offered Rate) + 2.0% or PRIME (rate charged to preferred borrowers) - 0.50% with no fees. Such loans will be competitive with the Federal PLUS Loan. Unfortunately, these rates often will be available only to borrowers with great credit who also have a creditworthy cosigner. It is unclear how many borrowers qualify for the best rates, although the top credit tier typically encompasses about 20% of borrowers.

- The fees charged by some lenders can significantly increase the cost of the loan. A loan with a relatively low interest rate but high fees can ultimately cost more than a loan with a somewhat higher interest rate and no fees. (Lenders that do not charge fees often roll the difference into the interest rate.) A good rule of thumb is that 3% to 4% in fees is about the same as a 1% higher interest rate.

Source: www.finaid.org

U.S. Congressional Proposal
S.840 was introduced in the U.S. Senate in the spring of 2015 aimed at ensuring student loan borrowers are fully aware and educated on all of the repayment options and resources available to them. The initiative, known as the *"Student Loan Borrower's Bill of Rights,"* provides six primary rights for all federal and private student loan borrowers:

- The right to have options such as alternative payment plans to avoid default.
- The right to be informed about key terms and conditions of the loan and any repayment options to ensure changing plans won't cost more.
- The right to know your loan's servicer and who to reach out to when there is a problem.
- The right to consistency when it comes to how monthly payments are applied. Lenders and servicers should also honor promotions and promises that are advertised or offered.
- The right to fairness, like grace periods when loans are transferred or debt cancellation when the borrower dies or becomes disabled.
- The right to accountability, including timely resolution of errors and certification of private loans.

Corresponding Initiatives:

- The introduction of S.840 followed a decision by the President at the time to provide additional protections to student loan borrowers, such as basing the cap of the student loans on income level, so less individuals earn, the less they will pay back each month, and creating a cap limit of 10 percent of income level every month.

- The **Bipartisan Student Loan Certainty Act of 2013** was passed and signed into law in August of 2013. The Act tied federal student loan interest rates to the financial markets. Loan interest rates are determined each spring for upcoming award years that run from July 1 – June 30. Each loan has a fixed interest rate for the life of the loan.

- In Illinois, HB 402 was introduced during the 2016 spring session and provides for creation of a deduction for individuals, trusts, and estates for certain qualified student loan payments made during the taxable year. Provides that the deduction is excluded from the Act's automatic sunset provision. As stipulated in Section 221 of the Internal Revenue Code, "qualified education loan" means any indebtedness incurred by the taxpayer solely to pay qualified higher education expenses. HB 402 is currently in House Rules.

- A working group under the purview of the Illinois Secretary of Education's office is considering an initiative pertaining to **Single-Stop Center Integration**. Single-Stop centers are meant to improve social service integration, focused on accessing tax credits, food stamps, child care, health insurance, plus free services such as tax preparation, financial counseling and legal advice. No Single-Stop Centers currently exist in Illinois, although some community colleges have similar models in place.

Additional Resources:

The Institute for College Access & Success (TICAS)
Another positive resource in the area of student loan costs and rates includes work The Institute for College Access & Success (TICAS) is conducting in key areas such as increasing access to need-based student aid, simplifying and improving federal student loans and their repayment, informing students about various debt outcomes and navigation tools, and strengthening borrower protection. TICAS has previously suggested several methods for reducing student debt levels, including reducing the need to borrow by increasing Pell Grant maximum awards, and better informing students about student loan debt and allowing students to apply for financial aid sooner. TICAS's website is provided here: http://ticas.org/

- Federal Student Aid, An Office of the U.S. Dept. of Education, http://studentaid.ed.gov/repay-loans/understand/plans/income-driven

- https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service (Public Loan Forgiveness Program)

- https://studentaid.ed.gov/sa/sites/default/files/income-driven-repayment.pdf (Income-Driven Repayment)

Illinois Attorney General's Office Assistance
The Illinois Attorney General's office offers a website for student loan consumers concerning debt scams and fraudulent marketing practices, including the Student Loan Helpline.

A link to the website is provided here:
http://www.illinoisattorneygeneral.gov/consumers/student_lending.html

Federal Student Loans	**Private Student Loans**
You will not have to start repaying your federal student loans until you graduate, leave school, or change your *enrollment status* to less than half-time.	Many private student loans require payments while you are still in school.

Federal Student Loans	Private Student Loans
The *interest rate* is fixed and is often lower than private loans—and much lower than some credit card interest rates. View the current interest rates on federal student loans.	Private student loans can have variable interest rates, some greater than 18%. A variable rate may substantially increase the total amount you repay.
Undergraduate students with *financial need* will likely qualify for a *subsidized loan* where the government pays the interest while you are in school on at least a half-time basis.	Private student loans are not subsidized. No one pays the interest on your loan but you.
You don't need to get a credit check for most federal student loans (except for PLUS loans). Federal student loans can help you establish a good credit record.	Private student loans may require an established credit record. The cost of a private student loan will depend on your credit score and other factors.
You won't need a cosigner to get a *federal student loan* in most cases.	You may need a cosigner.
Interest may be tax deductible.	Interest may not be tax deductible.
Loans can be consolidated into a *Direct Consolidation Loan*. Learn about your consolidation options.	Private student loans cannot be consolidated into a Direct Consolidation Loan.
If you are having trouble repaying your loan, you may be able to temporarily postpone or lower your payments.	Private student loans may not offer *forbearance* or *deferment* options.
There are several repayment plans, including an option to tie your monthly payment to your income.	You should check with your lender to find out about your repayment options.
There is no prepayment penalty fee.	You need to make sure there are no prepayment penalty fees.
You may be eligible to have some portion of your loans forgiven if you work in public service. Learn about our loan forgiveness programs.	It is unlikely that your lender will offer a loan forgiveness program.
Free help is available at 1-800-4-FED-AID and on our websites.	The Consumer Financial Protection Bureau's private student loan ombudsman may be able to assist you if you have concerns about your private student loan.