Student Loan Debt

SCOTT GILES
PRESIDENT/CEO VSAC
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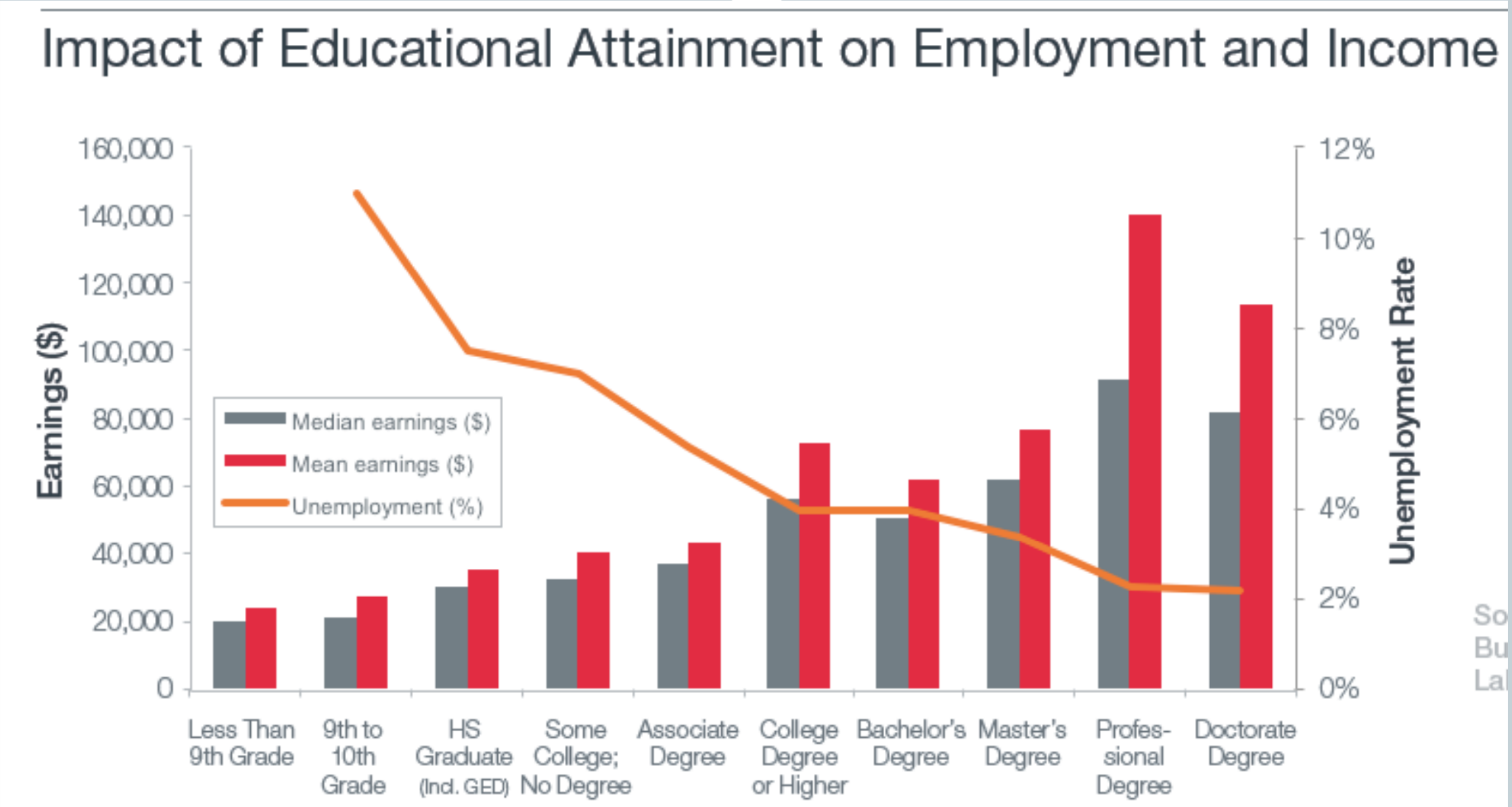
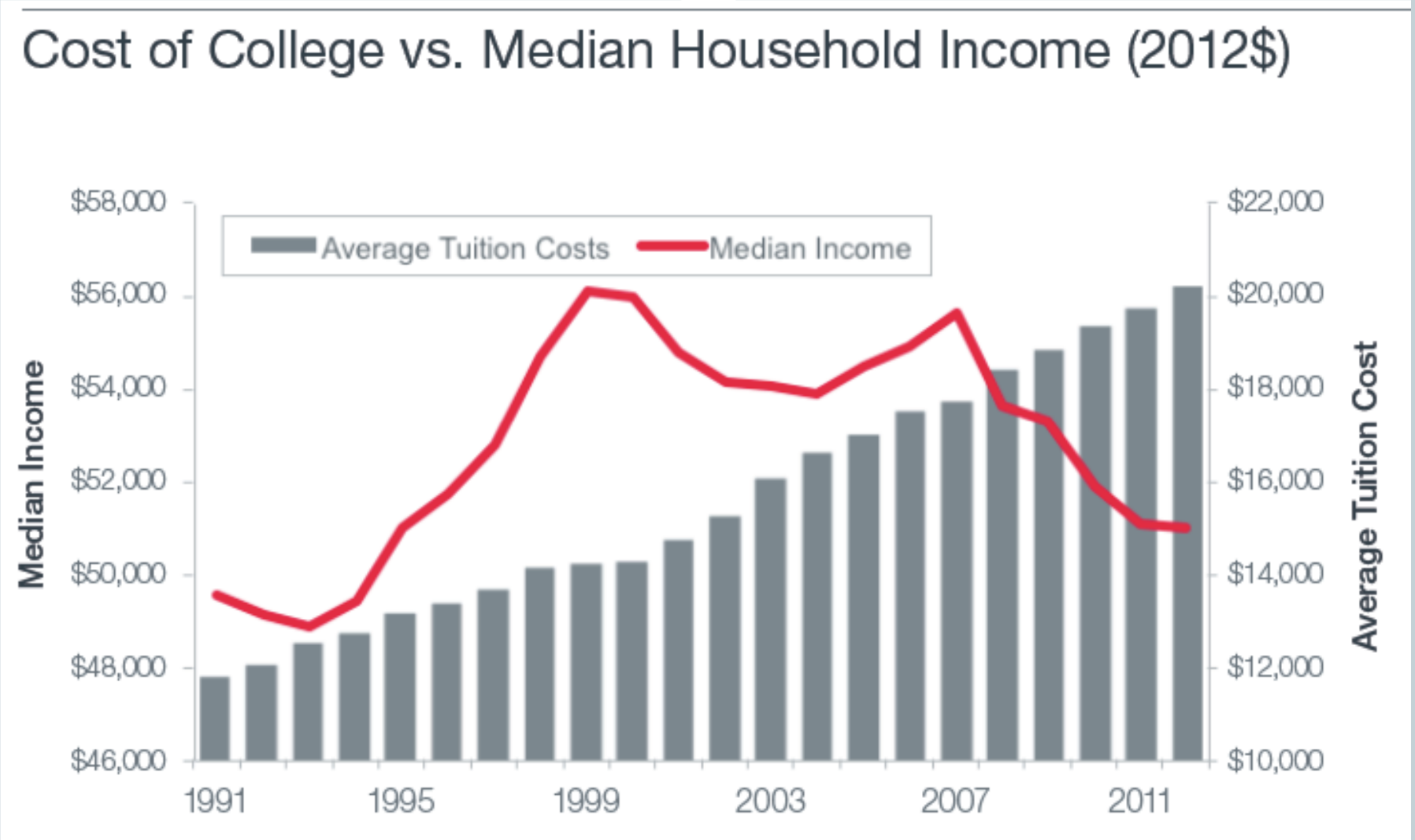
Education, Income & Unemployment

Source: Federal Reserve



Cost of college has once again outpaced income since 2000

Source: Federal Reserve

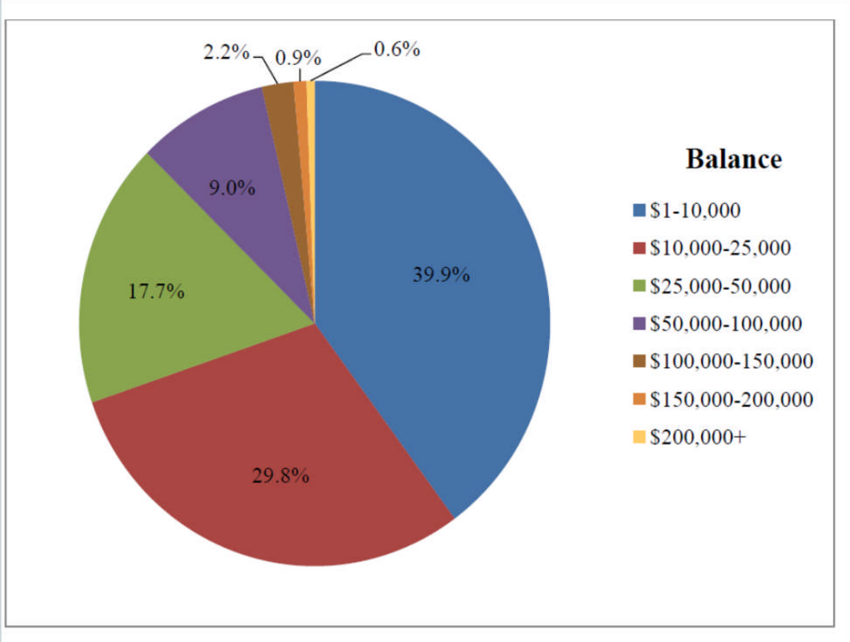


Distribution of Debt

Source: Federal Reserve

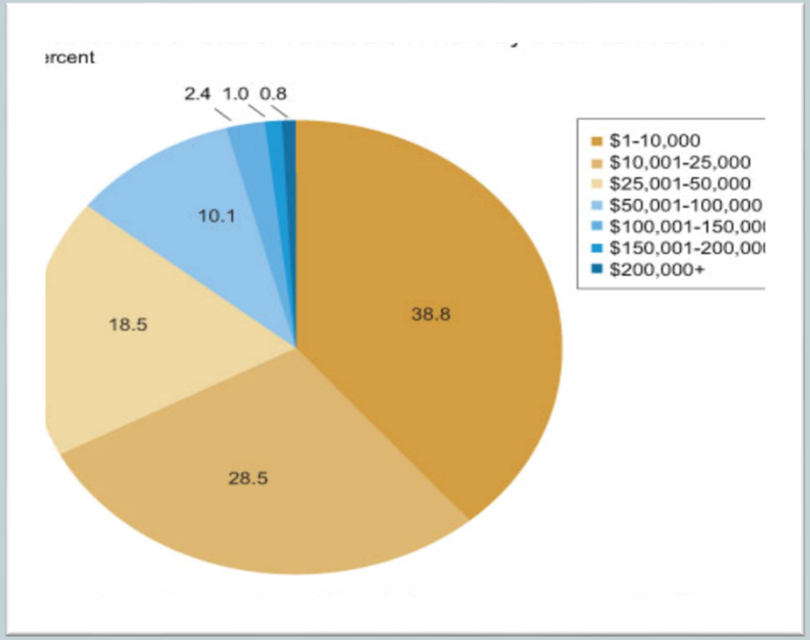
39% of borrowers have less than $10,000

2012



67% of borrowers have less than $25,000

2014



Student loan debt by the numbers

- 71% of BA degree seniors have student loan debt—69% in Vermont
- Average debt of seniors in Vermont is $29,060
- Average debt of seniors across nation is $28,950
- Note: data analysis reports average rather than median which may allow high balance borrowers to distort analysis.

Macro factors contributing to increased national student loan debt

- Inadequate career, education, and financial aid counseling
- Undergraduate enrollment grew by 37% between 2000 and 2010
  - Dipped in 2010 and is beginning to rise again
  - Public institutions leading the way
- Students are staying in college longer (6 years versus 4 years)
- More students are attending graduate school
  - This will change as the economy improves
- Tuition outpacing income
- Above market interest rates
- Complexity of loan repayment options and poor repayment counseling
  - Inappropriate use of forbearances leads to higher balances

Feds Profit on Student Loans

Net margin of 14%

Source: Congressional Budget Office

Table 2.
Total Direct Loan Program (New Loans Only), Federal Credit Reform—CBO's March 2016 Baseline

(By fiscal year)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Total All New Loans[a]											
Net Annual Loan Volume (Millions of dollars)	94,090	95,590	98,587	101,867	105,069	108,149	111,248	114,753	118,630	122,750	127,130
Net Number of Loans (Thousands)	17,248	17,398	17,694	[illegible]	18,430	18,783	19,112	19,483	19,893	20,335	20,809
Average Loan Amount	$5,455	$5,494	[illegible]	$5,640	$5,701	$5,758	$5,821	$5,890	$5,963	$6,036	$6,109
Subsidy Rate[b, c, d]	-13.87%	-9.72%	-7.73%	-6.76%	-6.14%	-5.99%	-5.94%	-5.94%	-5.96%	-5.95%	-6.00%
Subsidized Student Loans											
Net Annual Loan Volume (Millions of dollars)	22,468	22,952	23,572	24,352	25,170	25,986	26,768	[illegible]	28,488	29,432	30,437
Net Number of Loans (Thousands)	6,871	6,949	7,067	7,228	7,397	7,561	7,712	7,873	8,045	8,230	8,426
Average Loan Amount	$3,270	$3,303	$3,336	$3,369	[illegible]	$3,437	$3,471	$3,506	$3,541	$3,576	$3,612
Subsidy Rate[b, c, d]	0.40%	4.72%	6.88%	7.88%	8.44%	8.55%	8.55%	8.53%	8.50%	8.48%	8.46%
Unsubsidized Student Loans: Undergraduate											
Net Annual Loan Volume (Millions of dollars)	24,460	24,986	25,649	26,420	27,241	28,069	28,871	29,741	30,681	31,697	32,796
Net Number of Loans (Thousands)	7,062	7,142	7,259	7,403	7,557	7,710	7,852	8,008	8,180	8,367	8,571
Average Loan Amount	$3,464	$3,498	$3,533	$3,569	$3,604	$3,641	$3,677	$3,714	$3,751	$3,788	$3,826
Subsidy Rate[b, c, d]	-9.33%	-5.98%	-4.60%	-3.89%	-3.45%	-3.37%	-3.37%	-3.41%	-3.46%	-3.48%	-3.55%
Unsubsidized Student Loans: Graduate											
Net Annual Loan Volume (Millions of dollars)	26,577	26,397	27,311	28,282	29,118	29,892	[illegible]	31,631	32,694	33,826	35,031
Net Number of Loans (Thousands)	1,892	1,870	1,911	1,956	1,990	2,018	2,044	2,086	2,130	2,178	2,229
Average Loan Amount	$14,049	$14,119	$14,289	[illegible]	$14,634	$14,809	$14,987	$15,167	$15,349	$15,533	$15,719
Subsidy Rate[b, c, d]	-19.18%	-14.00%	-11.44%	-10.28%	-9.54%	-9.42%	-9.39%	-9.45%	-9.46%	-9.48%	-9.54%
GradPLUS Student Loans											
Net Annual Loan Volume (Millions of dollars)	8,980	9,437	9,997	10,518	11,022	11,518	12,118	12,744	13,404	14,098	14,826
Net Number of Loans (Thousands)	532	543	559	571	581	589	602	614	627	641	654
Average Loan Amount	$16,865	$17,371	$17,892	$18,429	$18,982	$19,552	$20,138	$20,742	$21,365	$22,005	$22,666
Subsidy Rate[b, c, d]	-18.90%	-13.46%	-10.77%	-9.65%	-8.92%	-8.80%	-8.79%	-8.83%	-8.86%	-8.86%	-8.91%
Parent Loans											
Net Annual Loan Volume (Millions of dollars)	11,604	11,818	12,058	12,295	12,509	12,684	12,860	13,036	13,363	13,698	14,041
Net Number of Loans (Thousands)	891	894	898	903	905	904	903	902	911	920	929
Average Loan Amount	$13,026	$13,223	$13,422	$13,623	$13,827	$14,035	$14,245	$14,459	$14,676	$14,896	$15,119
Subsidy Rate[b, c, d]	-35.06%	-33.14%	-32.00%	-31.35%	-30.96%	-30.94%	-30.91%	-30.99%	-31.03%	-31.03%	-31.13%

Components may not add up to totals because of rounding.

a. Totals exclude consolidation loans.

b. The subsidy rate is the net present value of the future federal cash flows divided by the loan dollars disbursed to borrowers each year. For example, the 2017 federal cost associated with the $95,590 million in new loan volume would be -$9,294 million or -9.72% of the new loan volume [$95,590 * -.972 = -$9,294]. In other words, the federal government will save on average about 9 cents for each new dollar loaned in 2017.

c. Subsidy rates do not include federal administrative costs associated with disbursing and servicing loans. Those administrative costs are included in the budget on a cash basis (see Table 4).

d. Subsidy rates were calculated using CBO's March 2016 interest rate forecast.

Losing .4% on Sub Loans

Earning 9.3% on Unsub Loans

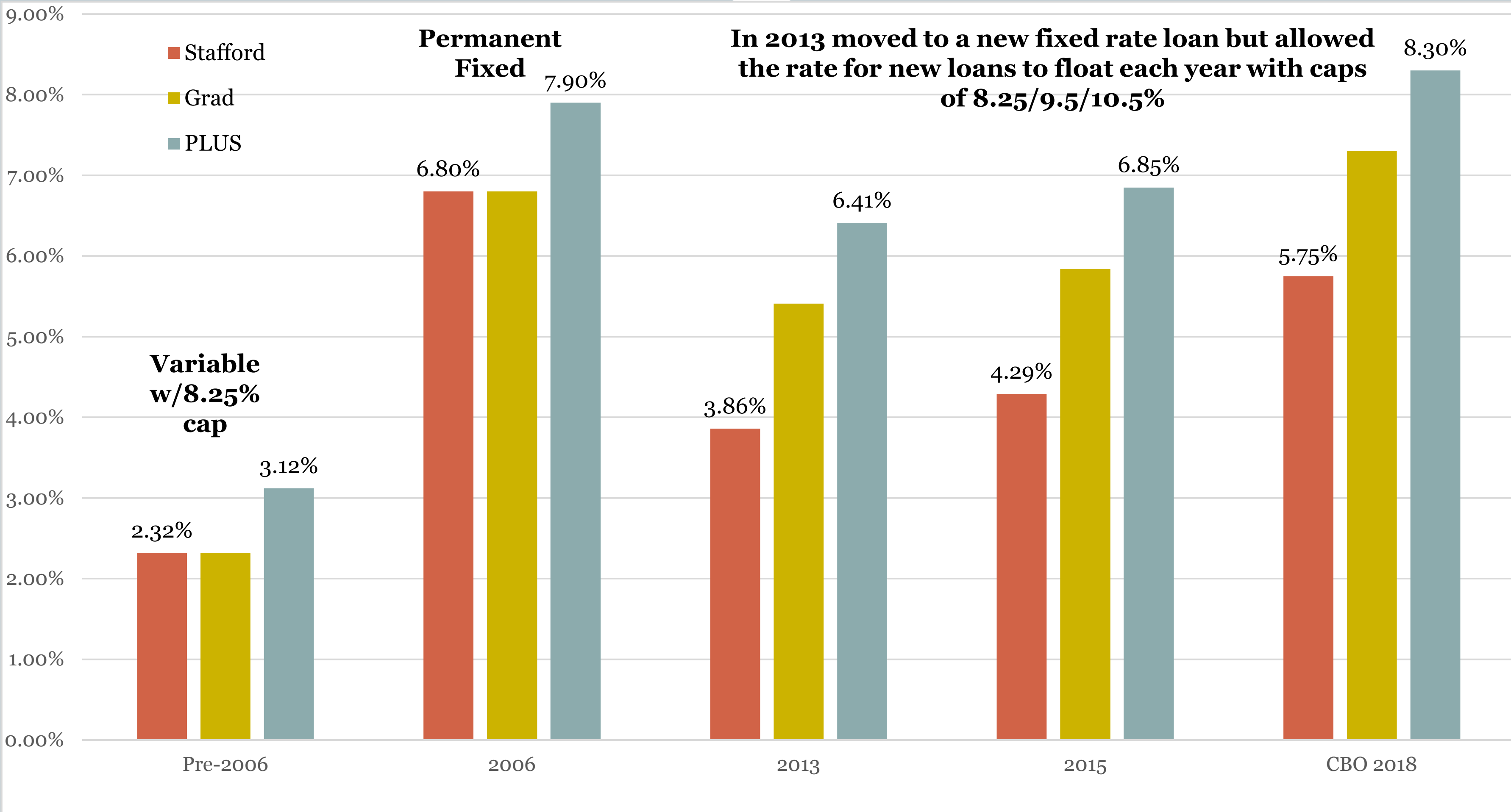
Earning 19.18% on Graduate Unsub Loans

Earning 18.9% on Grad PLUS Loans

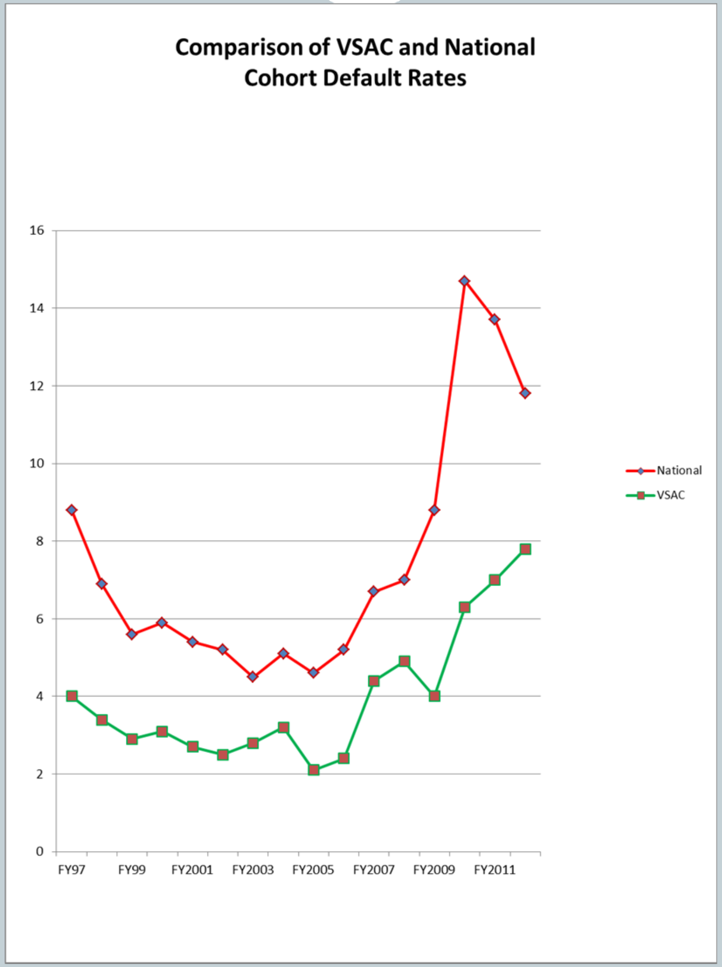
Earning 35.6% on Parent PLUS Loans

History of bad interest rate bets for students

VT delegation opposed 2013 rate deal



Federal student loan default rates spiked after federal government took over federal student loan servicing



What does the national data tell us about who is more likely to default?

- Students who dropout and do not graduate
  - These students fail to obtain the benefit of a degree
  - Have smaller balances— most defaulted loans are between $5,000 and $10,000—median is $8,900
- Students who attend for-profit schools
- Students who attend two-year institutions of all kinds
  - CCV stands out as an exception for doing an excellent job counseling to minimize debt and for working with their students
- Students who attend open enrollment institutions
- Students attending minority-serving institutions
- Borrowers who cannot be located because of inaccurate paperwork and/or failure to update contact information
- Borrowers who do not receive proper loan counseling after separation from school
    - 11 different and complicated payment programs
    - Income-based repayment options must be renewed annually
    - Most borrowers fail to renew on time

Some of the ways we help…can actually hurt…

- State and federal loans provide payment relief during times of economic hardship
  - Interest generally accrues
  - Temporary relief can lead to higher debt
- Ability to extend your payments to maximize cash flow can significantly increase debt
- Income-based repayment options work against those who succeed
- Delinquent borrowers sometimes use these entitlements to manage problems with their non-student loan debt
- Focused comprehensive counseling is the key

What steps are needed to support these students?

- Improve graduation and retention rates
- Increase funding for need-based grant aid and funding for UVM and VSC
- Reduce student loan interest rates
  - With your help and the state treasurer we will offer an alternative for parents
- Permit borrowers to refinance their existing loans at current market rates
  - With your help and the delegation's help we continue to seek permission from Treasury to offer lower-cost refinance loans
- Eliminate the taxability of loan forgiveness
- Reform federal loan servicing
  - The Department of Education's desire for the lowest possible cost is incompatible with public's desire for personalized repayment counseling.

Federal student loan repayment options

Assuming VT entry-level Teaching salary of $35,541 (source: NEA, 2013)

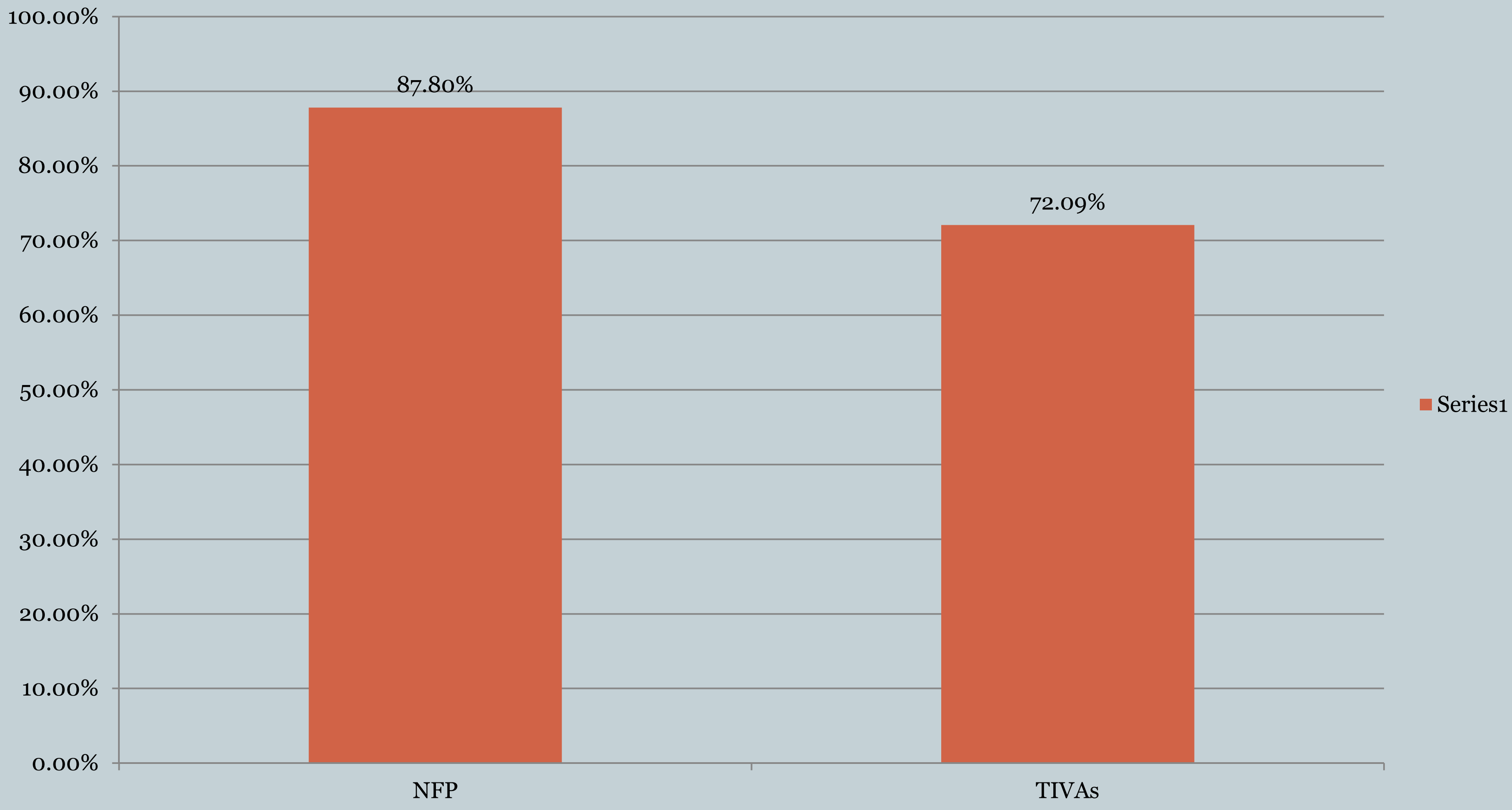
If college graduate has…	Fed $30,000	Fed $57,500	Fed $150,000	Private $13,500	Private $30,000
What would monthly payment be under…					
Standard Repayment (10 years)	$308	$591	$1,540	$111 (15 years)	$246 (15 years)
Extended Repayment (25 years)	$164	$313	$816	N/A	N/A
Revised Pay As You Earn (20 years)	$60	$60	$60	N/A	N/A
What would total cost be under…					
Standard Repayment	$36,943	$70,788	$184,716	$19,787	$44,036
Extended Repayment	$48,769	$93,787	$244,784	N/A	N/A
Revised Pay As You Earn	$52,340	$59,912**	$59,912**	N/A	N/A
* Assumes loan forgiveness at year 20			Average used-car payment: $359		
**Remaining balance would be forgiven			Source: Experian (2014, Qtr 4)		

Steps VSAC is taking to try to mitigate federal policy

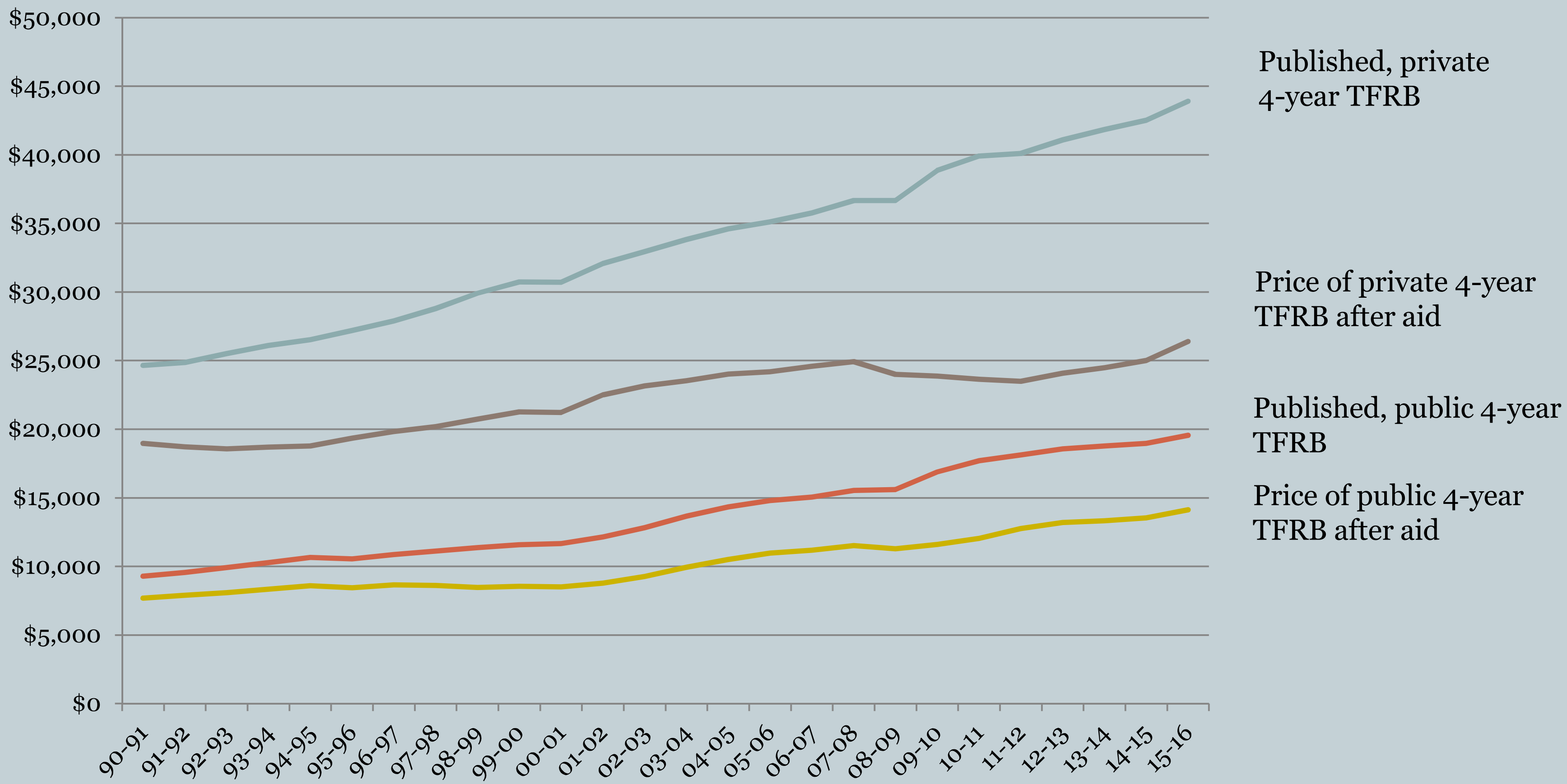
- Using tax-exempt financing to offer low-cost supplemental loans for students
- Offering Vermont parents a lower cost alternative to the Federal PLUS loan
- Working with the delegation to secure permission from U.S. Treasury to offer a way for families to refinance their education loans
- Offering comprehensive education loan counseling to all of our borrowers when they stop-out or when they graduate
  - This counseling provides guidance on how to manage all of their education debt—federal, VSAC, and other commercial loans

Appendix

NFP servicers are more successful working with federal education loan borrowers than 4 national servicers



Gap between published and net price is growing wider



Source: College Board

Federal and state student loans differ from other forms of consumer debt

- Students and parents have option of making no payments during time that they are in school
- Federal and state loans allow up to three years of reduced or non-payment due to economic
- Federal and state loans are discharged in the case of the death of the borrower and/or in cases of total, permanent, disability
- Federal loans have complicated repayment options with loan forgiveness

Graduation rates drive defaults and debt levels