AMERICA'S STUDENT LOAN PROVIDERS

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2007 STUDENT LOAN FACT BOOK

AMERICA'S STUDENT LOAN PROVIDERS
WASHINGTON, DC
www.aslp.us

History of Student Loans

President Lyndon Johnson proposed a federal guaranteed student loan program in his State of the Union Address on January 4, 1965.

"We are only at the beginning of the road to the Great Society," Johnson said. "Every child must have the best education that this Nation can provide. … For the college years we will provide scholarships to high school students of the greatest promise and the greatest need and we will guarantee low-interest loans to students continuing their college studies."

Ten months later, the Higher Education Act of 1965 was signed.

"We can provide loans, free of interest and free of any payment schedule until after you graduate, to worthy, deserving, capable students," Johnson said. "And in my judgment, this Nation can never make a wiser or a more profitable investment anywhere."

Almost 35 years later, Joseph A. Califano, Jr., former Johnson aide and later Secretary of Health, Education and Welfare, cited the "remarkable and enduring achievements of the Great Society programs."

Increased access to postsecondary education is one of the federal government's 50 most significant accomplishments since 1950, a 2000 survey by the Brookings Institution of American history and government professors found.

"When these programs were enacted," Califano said, "only 41 percent of Americans had completed high school; only 8 percent held college degrees. This past year, more than 81 percent had finished high school and 24 percent had completed college."[1]

By 2004, the percentage of adults holding a bachelor's degree had risen to 28 percent.[2] Two-thirds of high school graduates were enrolled in colleges or universities the following fall—well above the 50 percent continuation rate in the 1970s. Among low-income students, the percentage of immediate enrollment approximately doubled.[3]

[1] Joseph A. Califano, Jr., *The Washington Monthly* (October 1999).
[2] "Education Pays Update 2005," College Board.
[3] Ronald A. Wirtz, "Is College Affordable? Tuition and student debt have skyrocketed, but higher education still pays off," *Region*, Federal Reserve Bank of Minneapolis (October 2005).

Overview

For 41 years, the federal guaranteed student loan program has helped make higher education possible for millions of Americans.

This program, called the Federal Family Education Loan (FFEL) Program, is the most efficient and effective way to provide federal student loans. By leveraging private financial markets and competing for the right to lend to students, the FFEL program's private, nonprofit and state-based loan providers provide significant value to students, schools and taxpayers.

The foundation of the FFEL program is choice. Schools can choose among numerous loan providers to determine the program and loan product that are right for them and their students. This choice has created a competitive marketplace for student loans, with students, parents and schools as the beneficiaries of this competition. Competition among the FFEL program loan providers has resulted in lower loan costs for students and specialized loan services that best meet the needs of schools, students, and parents.

This past academic year (2005-2006), the FFEL program generated $52.5 billion of loans for more than 6.5 million students and their parents, according to the U.S. Department of Education.

America's Student Loan Providers publishes the "Student Loan Fact Book" on an annual basis, which has several parts:

> **Part I** provides facts on financial aid, federal student loans, Pell Grants, college costs and the FFEL program.
> **Part II** provides an overview of all federal student loan programs.
> **Part III** explains why the FFEL program is truly a government success story.
> **Part IV** offers a chronological view of a guaranteed student loan.

America's Student Loan Providers represents 87 of the nation's leading education and financial organizations that provide guaranteed student loans through the FFEL program. For information, please visit www.aslp.us.

January 2007

Part I: Key Facts

Total Financial Aid (federal/nonfederal)

adjusted for inflation

Total financial aid includes all federal grants, loans, work-study and tax benefits; state grants; private and institutional grants; and nonfederal loans.

Unless noted, the source for the following section is "Trends in Student Aid 2006," College Board (Oct. 2006).

In academic year 2005-06, the total of all federal financial aid programs was $94 billion.

- Total financial aid, federal and nonfederal, was $152 billion in academic year 2005-06, an increase of 114 percent since 1995-96.

- Total federal financial aid, including grants, loans, work-study and tax benefits, was $94 billion in academic year 2005-06, an increase of 95 percent since 1995-96.

- The $94 billion in total federal aid in 2005-06 included $68.5 billion in loans, $18.6 billion in grants ($12.7 billion in Pell Grants), $1 billion in work-study, and $6 billion in tax credits and deductions.

- Over the same time period, state grant programs grew 78 percent; institutional grants, 82 percent; private and employer grants, 154 percent; and nonfederal loans, 913 percent. By 2005-06 these components totaled the following:
  - State grants $6.8 billion
  - Institutional grants $24.4 billion
  - Private and employer grants $9.3 billion
  - Nonfederal loans $17.3 billion

About Federal Student Loans

*"Federal student loans," as used here, include Stafford loans (subsidized and unsubsidized) and Federal PLUS program loans made under **both the FFEL program and the Federal Direct Student Loan program**. They do not include Perkins or other loans.*

Unless noted, the source for the following section is "Trends in Student Aid 2006," College Board (Oct. 2006).

- In 2005-06, federal student loans totaled an estimated $68.5 billion. Of that, $28.8 billion represented Stafford subsidized loans; $28.8 billion, Stafford unsubsidized loans; and $9.7 billion, PLUS loans.[4]

[4] "PB 2007 Loan Volume, Current Services: Gross Commitments by Award Year," U.S. Department of Education.

- Adjusted for inflation, growth in federal student loan volume between 1995-96 and 2005-06 was as follows:[5]
  - Stafford subsidized 37%
  - Stafford unsubsidized 158%
  - PLUS 224%

- During approximately the same time period (1996-97 to 2006-07) average tuition, fees, room and board at four-year institutions increased 44 percent after adjustment for inflation.[6]

- About 15 million loans were made to 8.5 million student and parent borrowers in 2005-06. In 1994-05, about 4.4 million borrowers took out 7 million loans. Percentage increases were as follows:
  - Stafford subsidized 71%
  - Stafford unsubsidized 198%
  - PLUS 175%

- Undergraduate borrowing's share of Stafford loan volume in 2005-06 was 63.5 percent, down from 69 percent in 1994-95.

- Between academic years 1995-96 and 2005-06, federal student loan volume's share of total *federal* aid remained steady, decreasing modestly from 76 percent to 73 percent.

- By 2005-06, federal student loans' share of *total* financial aid had declined, from 52 percent in 1995-96 to 45 percent. The remaining 55 percent consisted of federal grants, work-study and tax benefits, state grants, private and institutional grants, and nonfederal loans.

- Stafford and PLUS loans' share of total student loan volume was 78 percent in 2005-06, as compared to 86.6 percent just 5 years earlier.

- Stafford subsidized loans' share of total annual education loans has declined dramatically. In 2005-06, loans were 34 percent Stafford subsidized, as compared to 54 percent in 1996-97, and 34 percent Stafford unsubsidized, as compared to 32 percent in 1996-97. *See table on page 4.*

- The relative growth in nonfederal and private loans has been as dramatic: from 6 percent in 1996-97 to 20 percent in 2005-06.

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5 "PB 2007 Loan Volume, Current Services: Gross Commitments by Award Year: Total Student Loans," U.S. Department of Education.
6 "Trends in College Pricing 2006," College Board.

Percentage Share of Student Loan Volume 1996-97 to 2005-06
constant dollars

Type of Loan	1996-97	2005-06
Stafford subsidized	54	34
Stafford unsubsidized	32	34
PLUS	8	11
Nonfederal and Private	6	20

Note: Due to rounding, total percentage is less than 100 percent.

About Guaranteed Student Loans

- Last academic year (2005-06), FFEL program loans accounted for 78 percent of all new federal student loans, or a total of $52.5 billion in loans.[7] A breakdown by loan type is presented in the table below.

FFEL Program Loans by Type 2005-06

Type of Loan	# of Borrowers	# of Loans	Loan Volume
Stafford subsidized	4.8 million	6 million	$22.2 billion
Stafford unsubsidized	3.9 million	5 million	$23 billion
PLUS	585,000	707,000	$7.2 billion
Total Amounts	6.46 million (unduplicated)	11.7 million	$52.5 billion

The FFEL program is the overwhelming choice of U.S. postsecondary schools. About 83 percent of schools have selected it as their student loan program.

- About $57 billion in consolidation loans were also made in 2005-06, as compared to $44.4 billion in 2004-05 and $36.7 billion the year before.[8]

- The loan cohort default rate today is 5.1 percent, one of the lowest rates in the history of the program.[9]

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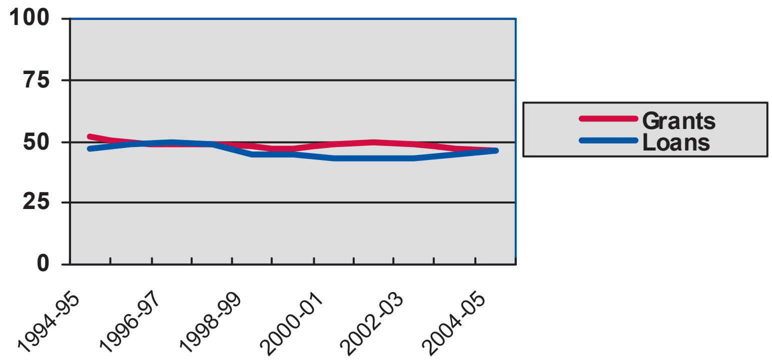
[7] "PB 2007 Loan Volume, Current Services: Gross Commitment by Award Year: Federal Family Education Loans," U.S. Department of Education. The Congressional Budget Office also reported data for FY 2005: The FFEL program made more than 10 million new loans totaling more than $44 billion to students and parents; in contrast, the Direct Loan program made 3.2 million loans totaling $15 billion ["Subsidy Estimates for Guaranteed and Direct Student Loans," Congressional Budget Office (CBO), November 2005].
[8] "PB 2007 Loan Volume, Current Services: Gross Commitment by Award Year: Federal Family Education Loans," U.S. Department of Education.
[9] U.S. Department of Education.

The Typical Borrower

Unless noted, the source for the following section is "Trends in Student Aid 2005," College Board (Oct. 2005).

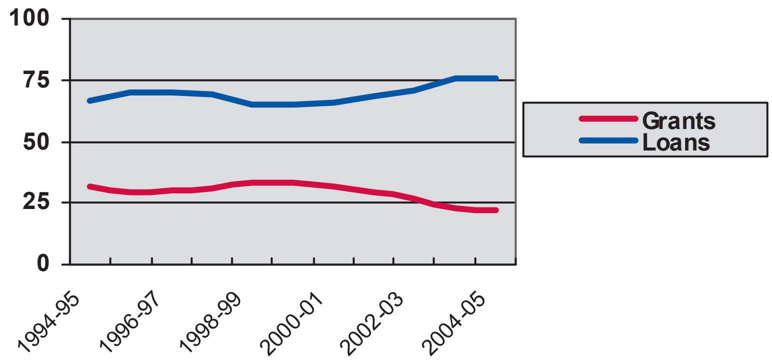
- 62 percent of all bachelor's degree recipients graduated with some federal student loan debt.[10]
- The median amount borrowed by students graduating from *public* institutions was $15,500 in 2003-04.
- For borrowers graduating from *private* nonprofit institutions, the median loan amount was $19,500 in 2003-04.
- The median debt for those graduating from private, four-year, for-profit institutions was $24,600.
- Regarding Stafford subsidized loans, the average loan was $3,074 in 2005-06, about 18 percent less in constant dollars than in 1995-96.
- The average Stafford unsubsidized loan was $3,398 in 2005-06, which represents a 5 percent decline in constant dollars over the same ten-year period.
- As a percentage of total financial aid for undergraduate borrowers, loans and grants, both federal and nonfederal, were both 46 percent in 2004-05. On the other hand, among graduate student borrowers, the gap between loans and grants has grown dramatically.

Grants and Loans as Percentage of Total Financial Aid
undergraduate borrowers



[10] "Federal Student Loan Debt: 1993 to 2004," American Council on Education (ACE), June 2005. Median amount borrowed by bachelor's degree recipients who graduated with student loan debt in 2003-04 was $16,432.

Grants and Loans as Percentage of Total Financial Aid
graduate borrowers



- Master's degree borrowers: At public institutions, the median amount borrowed (including undergraduate debt) was $26,119 in 2003-04; at private institutions, the median amount borrowed was $29,000.[11]

- Doctoral degree borrowers: The median amount borrowed was $44,743 in 2003-04.[12]

- Professional degree borrowers: The median amount borrowed by graduates of public institutions was $63,500 in 2003-04; at private institutions the median amount borrowed was $71,317.[13]

- Associate degree borrowers: The median amount borrowed in 2003-04 was $5,900.

- For-profit school borrowers: The median amount borrowed was $14,067 in 2003-04.

About Pell Grants
adjusted for inflation

Unless noted, the source for the following is "Trends in Student Aid 2006," College Board (Oct. 2006).

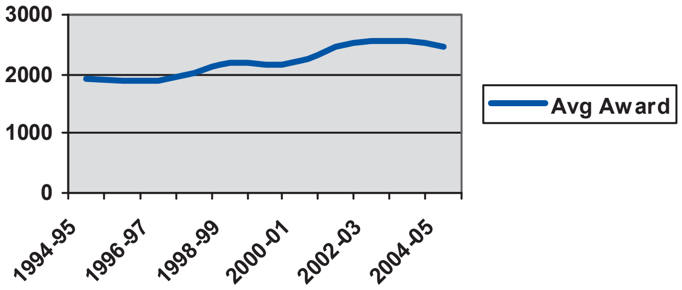
- Between 1995-96 and 2005-06 total spending on Pell Grants grew 81 percent, from $7 billion to $12.7 billion.

- 5.4 million undergraduate students received Pell Grants in 2005-06.

[11] Ibid.
[12] Ibid.
[13] Ibid.

- The average Pell award was $2,354 in 2005-06, an increase of 21 percent since 1995-96.

Average Pell Grants in Constant Dollars



- The actual maximum Pell Grant award was $4,050 in 2005-06, which represents an increase of 38 percent since 1994-95. However, since 2002-03, it has declined in constant dollars.

- The maximum Pell Grant covered only 33 percent of tuition, fees, room and board at the average public four-year college in 2005-06, as compared to 42 percent in 2001-02.

Enrollment in higher education is growing at a faster rate than the number of high school graduates. By 2014, enrollment in college is expected to increase by 15 percent, the number of high school grads, 10 percent.

About College Costs 2005-06

Unless noted, the source for the following is "Trends in College Pricing 2006," College Board (Oct. 2006).

- Average *published* tuition, fees, room and board for 2006-07 are as follows:

Type of institution	Tuition, fees, room & board	Tuition and fees only
Public 4-year	$12,796	$5,836
Private 4-year	$30,367	$22,218
Two-year public	n/a	$2,272
For-profit	n/a	$10,600 (2003-04)

- Full-time undergraduates at **public** four-year colleges:
  - About two-thirds attend institutions with **published** tuition and fees of less than $6,000
  - 95 percent attend institutions with **published** tuition and fees of less than $9,000

- Moreover, full-time undergraduates at these **public** institutions receive an average of about $3,100 in grants and tax benefits, leaving an average final, or net, cost for tuition and fees of $2,736.

- About 20 percent of full-time students at **private** 4-year colleges and universities attend institutions with published tuition and fees of less than $15,000.

- 62 percent of all full-time undergraduates receive grant aid from the federal or state government and/or from the institutions in which they are enrolled. Many others receive grants from private sources.

- Full-time students at **private** colleges receive an average of $9,000 in grants and tax benefits, leaving an average net cost of $13,218.

Type of institution	Tuition and fees only	All grants and tax benefits	Net cost
Public 4-year	$5,836	$3,100	$2,736
Private 4-year	$22,218	$9,000	$13,218
Two-year public	$2,272	$2,200	$72

ACCORDING TO THE COLLEGE BOARD

"[Subsidized Stafford Loans] involve significant subsidies since the federal government pays the interest while the student is in school and subsidizes the interest throughout the life of the loan. The unsubsidized Stafford Loan Program … has a much smaller subsidy component because interest accrues while the student is in school. However, like subsidized Stafford loans, these loans are guaranteed by the federal government and the interest rates are below market levels."

"Trends in Student Aid 2006," College Board (Oct. 2006)

Part II: Federal Student Loan Programs

FFEL Program

The Federal Family Education Loan (FFEL) Program is a public-private partnership in which private, nonprofit and state-based lenders make federally guaranteed student loans to students and parents. Unique to the FFEL program is its source of funds: the private capital markets.

Types of Stafford Loans

The main federal student loan is the Stafford Loan. There are two types:

— **Subsidized.** For students who meet a financial needs test, the federal government pays all interest costs while borrowers are in school, and during grace and deferment periods. Repayment begins six months after graduation.

— **Unsubsidized.** Students who do not meet a financial needs test or who need to supplement their subsidized loans may receive unsubsidized Stafford loans, which were created in 1993. Although borrowers may defer payment of interest during school, grace, and deferment periods, they are responsible for all interest that accrues. As with subsidized loans, borrowers have a six-month grace period following graduation before repayment is required.

Interest Rates

Another important benefit is that Stafford loans are made at interest rates well below what a borrower with no credit history, collateral or regular income would ordinarily pay. They are the best option available in the consumer marketplace for education borrowers.

Interest rates are set by law, as follows:

– **Under a 2002 law, beginning July 1, 2006, the interest rate for new loans is 6.8 percent.** *See table below.*

– **For most loans made before July 1, 2006, the interest rate will remain variable**, changing annually (maximum of 8.25 percent).

– Many loan providers provide interest rate discounts for on-time and electronic payments.

Stafford Interest Rates

Type of Loan	In-School	In-Repayment
New Loans Made after 6/30/06	6.8%	6.8%
Existing Loans Made from 7/01/98 through 6/30/06	Variable* (91-day T-bill rates + 1.7% up to 8.25%)	Variable* (91-day T-bill rates + 2.3% up to 8.25%)

* Resets annually on July 1

Loan Limits on Stafford Loans

Dependent undergraduates may borrow up to the following amounts:

	Until 6/30/07	Starting 07/01/07
Freshman Year	$2,625	$3,500
Sophomore Year	$3,500	$4,500
Remaining Years	$5,500	$5,500
Cumulative Limit/ Bachelor's Degree	$23,000	$23,000

Independent undergraduate students, as well as students whose parents have been turned down for a PLUS loan, can borrow an additional unsubsidized $4,000 the first two years and $5,000 the remaining years. The aggregate Stafford limit these students may borrow, including subsidized loans, is $46,000.

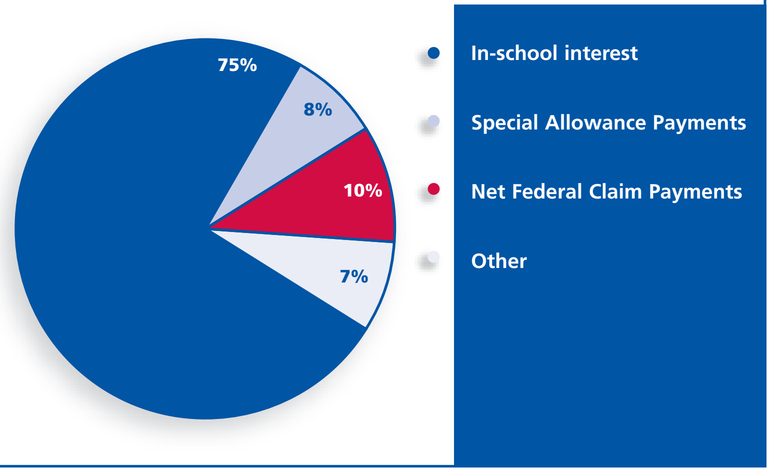
Graduate and professional students can borrow $20,500 per year (up from $18,500), although only $8,500 of that is subsidized. The aggregate subsidized limit for these students, including undergraduate loans, is $65,500. The combined cumulative limit for both subsidized and unsubsidized loans is $138,500.

For *independent* graduate students and for students whose parents were denied a PLUS loan, the cumulative limits are $46,000 and $138,500, respectively. Starting July 1, 2007, some medical school students may borrow up to $40,500 a year (up from $38,500) and a cumulative total of $189,125.

ELEMENTS OF THE FEDERAL SUBSIDY RATES

There is much confusion as to what makes up the Federal government's investment in the FFEL program, especially with respect to Stafford subsidized loans.

Three-quarters of FFEL program costs, as determined under the Credit Reform Act, are the costs associated with in-school interest. That is the interest that the taxpayers pay on behalf of subsidized loan borrowers while they are in school, a period that can extend well beyond four years.



Other FFEL Program Loans

Federal PLUS Loans

Parents of dependent undergraduate students may borrow up to the cost of attendance per child, minus financial aid from other sources. Beginning in July 2006, the interest rate on PLUS Loans made by the FFEL program is 8.5 percent.[14] During FY 2005, more than $6 billion in PLUS Loans were made.

Effective July 1, 2006, graduate and professional degree students are eligible to apply for PLUS Loans. This program expansion was a part of the Higher Education Reconciliation Act of 2005 (Title VIII of the Deficit Reduction Act of 2005, P.L. 109-171), enacted February 8, 2006. The terms and conditions applicable to Parent PLUS Loans also apply to Graduate/Professional PLUS loans.

For PLUS Loans made before July 1, the interest rate remains variable, with a maximum rate of 9.00 percent.

Federal Consolidation Loans

These loans help borrowers manage repayment of multiple loans by combining all eligible loans into a single, new guaranteed FFEL program loan *with the option of a longer repayment term,* resulting in an often smaller, monthly payment. As a result of record-low interest rates, nearly $54 billion in FFEL program consolidation loans were made during FY 2005.

The interest rate is a fixed rate equal to the weighted average of the loans being consolidated, rounded to the highest 0.125 percent.

Federal Direct Loan Program

The William D. Ford Federal Direct Loan Program was created in 1993. The program offers both Stafford and PLUS loans directly to borrowers and is administered by the U.S. Department of Education.

In 2005-06, about 3.3 million Direct Loans worth $14.8 billion were made to 2.1 million students and parents. This includes nearly $6.3 billion in Stafford subsidized loans, $5.7 billion in Stafford unsubsidized loans and $2.5 billion in PLUS loans. In addition, more than $19 billion in direct consolidation loans were made.[15]

[14] Because of a drafting error in the Higher Education Reconciliation Act of 2005 (Title VIII of the Deficit Reduction Act of 2005, P.L. 109-171), enacted February 8, 2006, the interest rate on PLUS loans made by the Federal Direct Loan program is 7.9 percent.
[15] "PB 2007 Loan Volume, Current Services, Gross Commitment by Award Year: Ford Direct Loans," U.S. Department of Education.

Federal Perkins Loan Program

Federal Perkins Loans are offered by participating schools to undergraduate and graduate students who demonstrate the greatest financial need. The school lends a combination of federal funds and its own funds, and borrowers repay the school, which then re-lends the funds.

The interest rate is 5 percent fixed. Students can borrow up to the following:

- $4,000 for each year of undergraduate study (with an aggregate borrowing limit of $20,000)
- $6,000 for each year of graduate or professional study (with an aggregate borrowing limit of $40,000, including any Perkins Loans borrowed as an undergraduate)

Perkins Loans usually serve as supplements to Stafford Loans and other federal aid. Borrowers who work in any of 12 different public service professions such as teaching, nursing, law enforcement, the military or the Peace Corps, are eligible to have their Perkins Loans forgiven.

Perkins Loans, originally called National Defense Student Loans, were the first federally supported student loan program, although because of federal funding restrictions the program is now small compared to the FFEL or Direct Loan programs. Last academic year, Perkins Loans represented 3 percent of all federal education loans.

Part III: The FFEL Success Story

Choice and competition are the hallmarks of the public-private FFEL program and have been since its predecessor, the Guaranteed Student Loan Program, was created by Congress in 1965.

Schools' and students' choice of lenders and competition among student loan providers have led to major gains in program efficiency, technological innovation, and effectiveness, as well as lower cost loans. All of these have contributed mightily to the FFEL program's growth and success.

Taxpayer Benefits of Public-Private Partnership

A primary way that the FFEL program differs from the Direct Loan program is the source of capital. The former's private, nonprofit and state-based loan providers raise capital in the private financial markets; on the other hand, the Direct Loan program borrows from the U.S. Treasury. Taxpayers benefit in at least two major ways:

— **FFEL program loan volume does not add to the national debt** and, consequently, taxpayers avoid significant debt service costs. As of FY 2005, $289 billion in FFEL program loans were outstanding, none of which are a part of the national debt. Over the next five years, about $385 billion in new loans will be made, helping even more Americans go to college, while again adding little or nothing to the national debt.

On the other hand, the Direct Loan program adds significantly to the national debt—an estimated $100 billion of the current national debt represents outstanding direct loans, according to OMB.

— Through the FFEL program, taxpayers leverage a relatively small investment to generate more than $50 billion annually in private capital to fund new guaranteed loans.

STAR Act Adds to Debt

The proposed Student Aid Reward (STAR) Act legislation, or any other proposal that seeks to shift new loan volume away from the FFEL program to the Direct Loan program, would add billions to the national debt, adding to annual debt service costs.

How Students and Parents Benefit

Choice and competition are the hallmarks of the FFEL program. Because schools and students have a choice of loan providers, many compete on price. In other words, schools and students can shop for the **lowest-cost loans**. In fact, many lenders offer fee reductions, lower interest rates for on-time payment, low rate alternative loans, and loan forgiveness.

In addition, lenders have an incentive to offer **superior levels of service**.

— Offering schools superior service and a wide range of services relieves school personnel of administrative tasks and frees up school resources to be available for institutional aid and other educational purposes.

— Students, parents and schools benefit from the latest electronic and information technology developed in the private sector. They benefit too from loan providers that can adopt new technologies quickly and nimbly to meet the needs of their customers.

In comparison, the Direct Loan program does not provide students a choice of lenders. Students and parents miss out on the benefits of competition.

How Else Do Students and Parents Benefit?

FFEL program loan providers do more than just make or guarantee loans. They invest significant amounts of time, energy and resources into programs to increase access to postsecondary education, manage debt and prevent defaults, all of which are provided free of charge.

– Many public service activities are aimed at students in areas with low college placement rates, high poverty rates and high dropout rates; there are special programs for first-generation college-bound students, K-12 Native American students, and other underserved students.

  Here is a sample of programs:

  - Workshops/presentations at college fairs and financial aid nights
  - Classroom workshops, booklets and Web sites that promote early college awareness and financial planning
  - Multi-language financial aid nights and materials
  - Financial aid hotlines, online chat forums, videos and workshops
  - Training videos and Internet sites for school personnel
  - On-campus interviews to explain loan responsibilities to students
  - Support for Federal TRIO programs (e.g., seminars that encourage and inform at-risk students about college and financial aid)
  - Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) activities
  - Outreach programs with state labor departments to provide college information to the unemployed or others receiving public assistance
  - Programs that promote college preparation
  - Millions of dollars in need-based scholarships annually
  - "Mapping Your Future" Web site (mapping-your-future.org) for families investigating college, career and financial aid options

Two-thirds of guarantors serve as the financial aid agency for their state, providing billions of dollars in grant and scholarship aid. Many also administer their states' college savings program.

FFEL Program's Growth Nationwide

The FFEL program is the overwhelming choice of postsecondary schools.

– About 83 percent of schools eligible to participate in federal student loan programs under title IV of the Higher Education Act have selected the FFEL program as their student loan program. See Figure 1.

– FFEL program loans represent 77 percent of total federal student loan volume, according to the President's FY 2007 Budget. See Figure 2.

FIGURE 1: SHARE OF POSTSECONDARY INSTITUTIONS (2005)

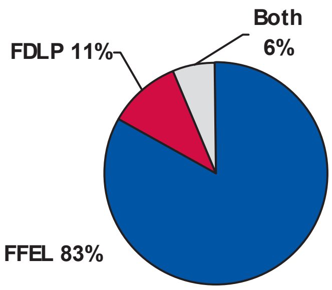
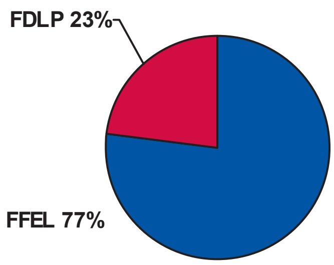


FIGURE 2: SHARE OF LOAN VOLUME (2005)



For a list of FFEL program and Direct Loan schools, presented by state, visit: www.studentloanfacts.org/statedata

History of Growth

- The FFEL program's share of postsecondary institutions has been rising since 1998-99, when the percentage of schools participating in the Direct Loan program peaked.
- More than 600 postsecondary institutions have left the Direct Loan program since it was created, returning to the FFEL program.[16]
- A 2005 ASLP survey of financial aid administrators at schools that had left the Direct Loan program and returned to the FFEL program explained why:[17]
  - 86 percent of school officials surveyed said the FFEL program is a better program—60 percent said it had no drawbacks.
  - Three-fourths believed that the FFEL program better satisfies their institution's needs.
  - The FFEL program was seen as more responsive, easier to manage and more financially competitive.
  - Most frequently cited were the FFEL program's customer service, borrower benefits and technology, as well as assistance with reconciliation.
  - Specific advantages included its funding process, service and support, the time and effort the program requires, problem resolution, control over funding process, reconciliation process, benefits to the students and choice of lenders.

Other Factors Behind Growth

Demand for Postsecondary Education

The demand for seats in the nation's college classrooms continues to grow, and with it, the demand for federal need-based grants and student loans. The end result will be larger overall student loan volume.

- The College Board reports that "the number of full-time equivalent students grew by almost 30 percent over the decade."[18]

[16] U.S. Department of Education data, U.S. House Committee on Education and the Work Force, industry data and public record.
[17] Conducted for ASLP by Rockbridge Associates, Inc.
[18] Trends…, 2006 Updates, College Board (October, 2006).

- By October 2005, about 11.0 million 16- to 24-year olds were enrolled in college, *more than a million more than the number of students enrolled in high school* (9.9 million).[19]

- The college enrollment rate for recent high school graduates has never been higher. As of October 2005, about 69 percent of high school graduates from the class of 2005 were enrolled in colleges or universities—the highest rate recorded since 1959.[20]

- Between 2006 and 2014, the number of students attending *postsecondary* education institutions is projected to grow 10.2 percent to more than 19.5 million students.[21]

- Full-time enrollment is expected to increase 11.17 percent between 2006 and 2014. Part-time enrollment is expected to increase 8.8 percent during the same period.[22]

- Enrollment of *undergraduate students in college* between 2004 and 2015 is projected to increase 14 percent.[23]

Continued Growth in Pre-K Through 12

The pipeline of future postsecondary students is full, as well.

- Between 2003 and 2015 enrollment in grades 9-12 is projected to increase 3 percent.[24]
- Enrollment growth among students right behind them is growing even faster. Enrollment in pre-kindergarten through grade 8 is projected to increase an additional 7 percent between 2003 and 2015.[25]

Growing Diversity of College-Age Population

Population of potential college students also is increasingly diverse. Between 2005 and 2013, the share of all high school students represented by minority students will increase from 31 to 41 percent. By 2013, Hispanic students will account for 20 percent of all high school graduates.

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[19] "College Enrollment and Work Activity of 2005 High School Graduates," Bureau of Labor Statistics, U.S. Department of Labor (March 24, 2006).
[20] Ibid. The Labor Department began tracking this enrollment rate in 1959.
[21] College Board (2005).
[22] College Board (2005).
[23] "Projections of Education Statistics to 2015," National Center for Education Statistics, U.S. Department of Education (September 2006).
[24] Ibid.
[25] Ibid.

Enrollment in college among Hispanic, Black and other minority populations is expected to grow significantly. Between 2004 and 2015, college enrollment is projected to increase, as follows:

White, non-Hispanic	6%
Hispanic	42%
Asian or Pacific Islander	28%
Black, non-Hispanic	27%

Decline in the Value of Pell Grants

Federal student loans are an increasingly important source of financial aid, as the value of Pell Grants, the federal government's largest form of need-based aid, declines in relation to postsecondary school costs.

In 2005-06, maximum Pell Grants covered 33 percent of the average published price of tuition, fees, room, and board at a public four-year college or university. Just four years ago, Pell Grants covered 42 percent, and in 1985-86, 60 percent.[26]

According to the College Board, the average Pell Grant per recipient declined by $120 dollars between 2004-05 and 2005-06, from $2,474 to $2,354. "At its peak in 2002-03, it was $294 higher in constant 2005 dollars," Trends in Student Aid 2006 reports.

The Many Faces of the FFEL Program

Hundreds of lenders and 35 guaranty agencies participate in the program.

Some state-based and nonprofit guaranty agencies predate the original Guaranteed Student Loan Program, created by state legislatures to stand behind earlier state loan programs. With longstanding, deep roots in their communities, these and other organizations have offered—for decades and free of charge—a panoply of college awareness, financial aid, borrowing assistance, debt management and default prevention programs.

FFEL program participants include a range of institutions, such as:

- Money-center banks, regional banks, credit unions & community banks
- Nonprofit lenders and secondary markets
- National, regional and state guaranty agencies

[26] "2006 Trends in Higher Education Series: Pell Grants," College Board (2006).

> **"Today, more than ever before in our history, education is the fault line between those who will prosper in the new economy and those who will not."**
> **President Bill Clinton**

FIGURE 3: AVERAGE EARNINGS BY EDUCATION: 2004

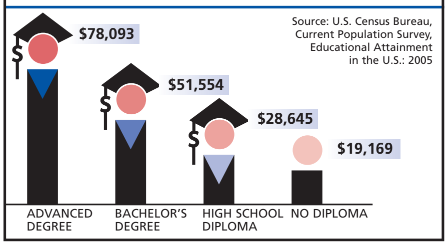
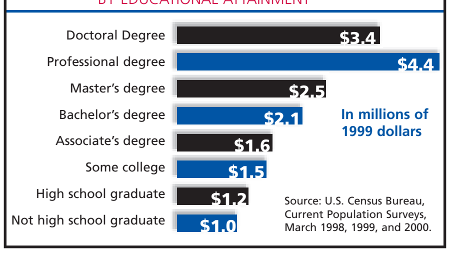


FIGURE 4: COMPARISON OF LIFETIME EARNINGS BY EDUCATIONAL ATTAINMENT



Higher Education is the Best Investment

A postsecondary education remains the best investment an individual can make, despite rising college coats and the impact of globalization on earnings. Additionally, the benefits to society and the economy overall, as well as the non-economic benefits for the individual, are substantial.

Average Earnings

Average earnings by educational attainment in 2004 were as follows (see Figure 3):

– Less than High School	$19,169
– High School Graduate	$28,645
– Bachelor's Degree	$51,554
– Advanced Degree	$78,093[27]

Earnings Gap Widens

The earnings gap between high school graduates and college graduates has widened considerably, the College Board reports.[28] The median earning premiums for males and females with bachelor's degrees or higher for 1975, 1985 and 2005, are as follows:

	Males	Females
1975	19%	37%
1985	37%	47%
1995	56%	71%
2005	63%	70%

Lifetime Earnings

Over a lifetime, annual earnings gaps really add up. According to a 2002 Census Bureau study, a college graduate can expect to earn almost twice as much as someone with a high school degree.[29] See Figure 4.

An individual with a bachelor's degree would expect to earn on average $2.1 million over a 40-year work-life, as compared to $1.2 million for a high school graduate.

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[27] "Educational Attainment in the United States: 2005," U.S. Census Bureau (October 2006).
[28] Education Pays 2006 Update, College Board.
[29] Jennifer Cheeseman Day and Eric C. Newburger, "The Big Payoff: Educational Attainment and Synthetic Estimates of Work-Life Earnings," U.S. Census Bureau (July 2002).

Individuals with post-graduate degrees do even better. An individual with a Master's degree on average would earn $2.5 million; doctoral degree, $3.4 million; and, professional degree, $4.4 million.

Lower Unemployment Rates

College graduates are less likely to be unemployed. The national unemployment rate in 2005 for individuals with a bachelor's degree or higher was about half the overall national rate. The unemployment rate among high school graduates was 2.3 times higher than that of individuals with a bachelor's degree or higher.

Studies: College as an Investment

A college degree is indeed a great investment, two recent articles conclude, despite rising tuition and concerns about student loan debt. For most student borrowers student loan payments are manageable, and about 40 percent graduate without any student loan debt. And it still pays to go to college, considering that students, on average, will recoup their investment within 10 years of graduation.

These articles bring much-needed light to the issues surrounding college costs and student loan debt.

Is College Unaffordable?
Tuition and student debt have skyrocketed, but higher education still pays off

Ronald A. Wirtz, Senior Writer
The Region, Federal Reserve Bank of Minneapolis

> "An argument gaining traction is that students—particularly those of modest means—can no longer afford college. Much of the debate agonizes over rising tuition—the supposed offspring of cash-strapped universities, penny-pinching state legislatures and stagnant Pell grants—and secondary effects of increased student loans and rapidly rising student debt.
>
> "It makes for a good story. But these purported problems are not having quite the effect feared by many. Enrollments have been climbing (not receding), higher education revenue has exploded (not imploded) and student debt remains manageable for most. And the clincher: Research shows that even given its higher cost, college is still well worth the investment."

Does College Still Pay?

Lisa Barrow and Cecilia Elena Rouse

The Economists' Voice [Volume 2, Issue 4 2005 Article 3]

> "The wage-gap slowdown has led some to wonder: Has college ceased being the better deal over the past few years? Do rising tuition levels mean that the value of a college education has peaked? And even, is attending college still worth the costs?
>
> "Our answer to the final question is yes. College is definitely still worth the investment."

Lisa Barrow is an economist at the Federal Reserve Bank of Chicago and Cecilia Rouse is a professor at Princeton University.

Education Pays Second Update

College Board (October 2006)

> "The personal financial benefits of higher education are very real and very important, but they do not tell the whole story. Individuals reap significant nonmonetary benefits from education and enjoy expanded life opportunities. Society as a whole benefits both in monetary terms and through the improved citizenship that is characteristic of college graduates."

Part IV: Life of a Student Loan

Step 1: Complete the FAFSA

To obtain a federal student loan, a student must complete a Free Application for Federal Student Aid, or "FAFSA," and submit it to the U.S. Department of Education. The completed FAFSA is analyzed to estimate the expected family contribution (or "EFC") toward higher education costs. Based on this amount, school financial aid professionals put together a financial aid package that typically includes Pell grants, federal Stafford loans and work-study jobs. For more information, visit www.fafsa.ed.gov.

Step 2: Choose a Loan Provider

If a student, having selected a school, accepts the school's financial aid award package that includes a Stafford loan, the student then must choose a loan provider. Students have a choice of banks, loan companies, and nonprofit or state-based higher education finance agencies. The school may have preferred lenders, but a student may choose any participating loan provider.

Step 3: Loan Application

Federal student loans are made *without regard to a student's employment status, credit history or collateral*. A state or non-profit guaranty agency stands behind the loan; the federal government, in turn, partially reinsures the guaranty agency. If the student is eligible for the amount sought, the funds are disbursed to the student's school, which applies the funds to tuition, fees, and other expenses. Any remaining balance is provided to the student for other expenses.

Under federal law, loan fees of up to 3 percent may be deducted from the principal amount disbursed. For FFEL program loans, two percent is paid to the federal government to defray the cost of the federal student loan program, although many lenders pay some portion of or the entire fee on the student's behalf. One percent is paid into a federally owned reserve fund held by the guaranty agency to reimburse lenders in the event of default and to pay for default prevention activities.

Under a law passed in 2006, Congress is reducing loan fees over several years.[30]

Step 4: Study

A student enrolled at least half time is not required to make any loan payments while they are in school. If the student has a *subsidized* Stafford Loan, the federal government pays the interest that accrues while the student is in school; in other words, the student does not have to pay it back. If the student has an *unsubsidized* Stafford Loan, he or she also is not required to make any loan principal or interest payments while in school. However, the borrower is ultimately responsible for all interest that accrues while in school.

Step 5: Repayment Options

Repayment generally begins six months after a student leaves school. FFEL program borrowers have several repayment options, including equal

[30] The maximum origination fee on Stafford loans made by the FFEL program will be phased out by 2010. For Stafford and PLUS loans guaranteed on or after July 1, 2006, the law requires the collection and the deposit into a guaranty agency's Federal Fund of a federal default fee of 1 percent of principal. (Similarly, the law requires the Direct Loan program to collect a fee to cover default costs, although it's called an origination fee.)

monthly installments, payments that gradually rise over the loan term and payment amounts linked to a borrower's income.

Borrowers may also consolidate student loans into a single monthly payment with a single lender and, depending on their outstanding loan balance, extend their repayment period from the standard ten-year time frame to as long as 30 years.

Borrowers who encounter financial problems may apply to defer or reduce their loan payments for a designated period of time. Borrowers who return to school can also defer their loans while in school.

Some lenders manage the repayment process for their borrowers in-house, while others contract this work out to third party loan servicers who receive payments, track balances and keep in contact with the borrowers.[31]

Some lenders sell their student loans to investors through a student loan secondary market and then use the proceeds to make more student loans. Secondary markets ensure that there is always a ready supply of capital available to assist other students.

**WITH DEFAULTS,
THERE ARE NO WINNERS**

Risk of default is a serious matter for loan providers, as well as borrowers. Defaults have consequences, including:

- **Lenders incur a loss of up to 3% (guaranty agencies, 5%) of the total of the amount borrowed and accrued interest, and**
- **The lender's costs for marketing, distributing, servicing and collecting loans are lost, and**
- **The very real opportunity cost of lending money that fails to produce the expected return—that is a real cost.**

Defaults and Collections

The overwhelming majority of student loan borrowers make regular payments on their student loans. In fact, default rates for student loans have dropped significantly over the last fifteen years. From a high of 22.4 percent in FY 1990, the default rate in FY 2003 was 4.5 percent, the lowest level in the history of the program. In September 2006, the Department announced that the FY 2004 default rate was 5.1 percent.

If a student loan borrower begins to miss or make late payments, the lender or third-party servicer will make repeated attempts to contact him or her to help keep them on-time and in repayment. If a borrower falls two or more months behind in payments, the lender notifies the borrower's guaranty agency and together they begin efforts to prevent the borrower from defaulting on the loan.

If the borrower fails to make payments for *nine months*, the loan is in default and the lender presents a claim for partial payment (effective for loans disbursed on or after July 1, 2006, 97 percent of the outstanding balance) to the guaranty agency. (See box on the left) Once the guaranty agency determines that the claim is valid, the loan is purchased from the

[31] The FDLP utilizes third party servicers as well; use of loan servicers is a common practice throughout the consumer loan industry.

lender and the guaranty agency applies to the U.S. Department of Education for partial reimbursement (95 percent of the claim value).

After default, the guaranty agency continues to pursue repayment from the borrower. Loan providers share the cost of loan defaults with taxpayers, which creates an additional incentive for lenders and guaranty agencies to prevent defaults. Over time, Congress has given loan providers additional tools, such as the right to offset defaulted loans with income tax refunds, to help reduce default costs. The Department of Education also monitors the default rates of individual schools in an effort to keep default rates low.

More Information

For more information about federal student loans and financial aid, visit:

Advisory Committee on Student Financial Assistance
www.ed.gov/offices/AC/ACSFA

The College Board
www.collegeboard.org

National Association of Student Financial Aid Administrators
www.nasfaa.org

National Center for Education Statistics
www.nces.ed.gov

U.S. Department of Education, Federal Student Aid
www.studentaid.ed.gov

U.S. Department of Education, Office of Postsecondary Education
http://www.ed.gov/about/offices/list/ope

U.S. House of Representatives, Committee on Education and Labor
http://edlabor.house.gov

U.S. Senate, Committee on Health, Education, Labor and Pensions
www.help.senate.gov

America's Student Loan Providers

Kevin Bruns
Executive Director
202.721.1190
Kevin@aslp.info

Or visit www.aslp.us

ASLP MEMBERS

Access Group
Alaska Student Loan Corporation
ALL Student Loan Group
AmSouth
Arizona Higher Education Loan Authority
Arkansas Student Loan Authority
Bank of America
Bank One Education Finance
Brazos Higher Education Service Corporation
California Student Aid Commission/EDFUND
Chela Education Financing
Citibank, The Student Loan Corporation
Citizens Bank
The College Board Education Loan Program
College Invest
Collegiate Funding Services
Colorado Student Loan Program
Connecticut Student Loan Foundation
Consolidation Assistance Program
Consumer Bankers Association
Edsouth
Educaid, Wachovia Corporation
Education Assistance Corporation (South Dakota)
Education Finance Council
Education Services Foundation
Educational Credit Management Corporation (ECMC)
Finance Authority of Maine
FinanSure
Goal Financial
Greater Texas Foundation
Higher Education Services Corporation (New York)
Illinois Student Assistance Commission
Indiana Secondary Market for Education Loans, Inc.
Iowa College Student Aid Commission
Iowa Student Loan Liquidity Corporation
JPMorgan Chase
Kentucky Higher Education Assistance Authority
Kentucky Higher Education Student Loan Corporation
Key Bank USA, N.A., Key Education Resources
LoanStar Funding Group, Inc.
LoanStar Systems, Inc.
Louisiana Education Loan Authority
MHEAA   Michigan Guaranty Agency
Michigan Higher Education Student Loan Authority
Missouri Higher Education Loan Authority (MOHELA)
Montana Guaranteed Student Loan Program
Montana Higher Education Student Assistance Corporation
National City Bank
National Council of Higher Education Loan Programs
National Student Loan Program
Navy Federal Credit Union
Nellie Mae
Nelnet
New Hampshire Higher Education Assistance Foundation
New Hampshire Higher Education Loan Corporation
New Jersey Higher Education Student Assistance Corporation
New Mexico Educational Assistance Foundation
New Mexico Student Loan Guarantee Corporation
NextStudent
North Carolina State Education Assistance Authority
North Texas Higher Education Authority
Oklahoma Guaranteed Student Loan Program
Oklahoma Student Loan Authority
Oregon Student Assistance Commission
Panhandle-Plains Higher Education Authority, Inc.
PNC Bank
Rhode Island Higher Education Assistance Authority
Rhode Island Student Loan Authority
Sallie Mae
South Carolina Student Loan Corporation
South Texas Higher Education Authority, Inc.
Southwest Student Services Corporation
Student Assistance Foundation (Montana)
Student Loan Finance Association
Student Loan Funding
Student Loan Guarantee Foundation of Arkansas
Student Loan Xpress, Inc.
Student Loans of North Dakota
SunTrust Education Loans
Tennessee Student Assistance Corporation
Texas Guaranteed Student Loan Corporation
USA Funds
U.S. Bank
Utah Higher Education Assistance Authority
Vermont Student Assistance Corporation
Wells Fargo Bank
Wyoming Student Loan Corporation

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