LAO
LEGISLATIVE ANALYST'S OFFICE

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Overview of Student Loans

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Presented to:
Select Committee on Youth and California's Future
Hon. Ian C. Calderon, Chair

Assembly Committee on Banking and Finance
Hon. Matthew Debabneh, Chair

Purpose of Student Loans

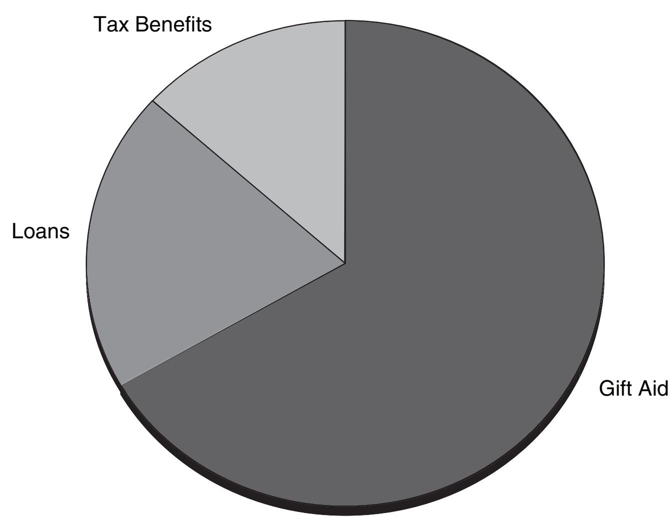
Financial Aid for College

- Financial aid helps students/families cover the costs of attending college. Aid can help cover tuition, books and supplies, and living expenses.
- Most financial aid is "need based"—that is, it aims to make college accessible for students/families who otherwise could not afford to pay college costs.

Main Types of Financial Aid

- Gift aid: grants, scholarships, and tuition waivers that students/families do not repay.
- Tax benefits: reductions to income tax payments or tax refunds.
- Loans: aid that students/families must repay over time.

Loans Comprise One-Fifth of Financial Aid Received by Undergraduates Attending Public Colleges in California

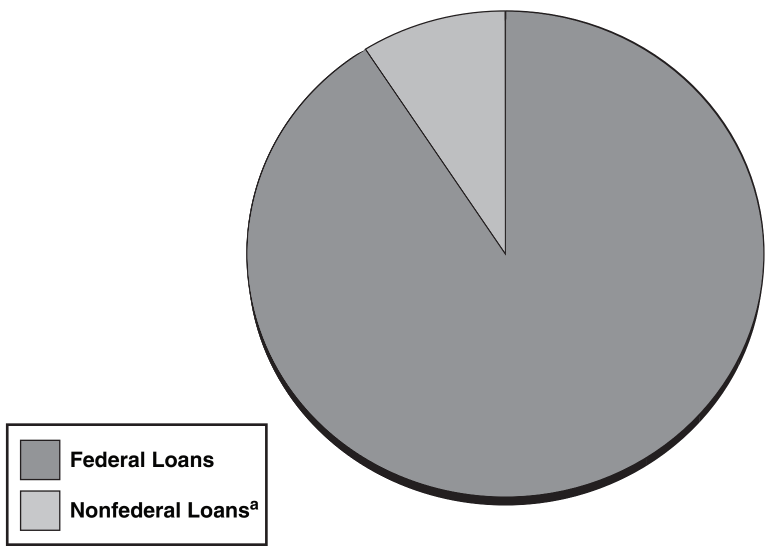


Types of Student Loans

Two Main Categories of Student Loans

- Federal student loans are made by the federal government.
- Nonfederal student loans are made by states, colleges, and financial institutions. Loans made by financial institutions are often referred to as "private" loans.

Federal Loans Make Up Vast Majority of California Student Loans



[a] Estimated based on national estimates of nonfederal student loan borrowing.

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Federal Student Loans

☑ Federal Student Loans

- The federal government currently has three student loan programs: (1) Direct Loans, (2) PLUS Loans, and (3) Perkins Loans.

Federal Government Has Three Student Loan Programs[a]

	Borrowers	Need Based?	Credit Requirement	Annual Limit[b]	Lifetime Limit[b]	Interest Rate[c]	Loan Fee	Grace Period
Direct Loans								
Subsidized	Undergraduates	Yes	No	$5,500	$23,000	3.8%	1.1%	6 months
Unsubsidized	Undergraduates	No	No	7,500[d]	31,000[d]	3.8	1.1	6 months
	Graduate students	No	No	20,500	138,500[e]	5.3	1.1	6 months
PLUS Loans	Graduate students	No	Yes	Up to cost of attendance	—	6.3	4.3	6 months
	Parents	No			—	6.3	4.3	—
Perkins Loans	Undergraduates	Yes	No	5,500	27,500	5.0	—	9 months
	Graduate students	Yes	No	8,000	60,000[e]	5.0	—	9 months

[a] Reflects current program rules for new loans.

[b] Amounts shown for undergraduates are for dependent students. Limits are higher for undergraduates who are independent.

[c] Fixed for the life of the loan. Congress sets the rate for Direct and PLUS loans based on market rates, plus a fixed amount. It has set a rate of 5 percent for Perkins loans. The federal government pays interest costs on subsidized Direct loans and Perkins loans while the student is in school.

[d] Including any amounts borrowed through subsidized loans.

[e] Including loans received for undergraduate study.

Nonfederal Student Loans

State Student Loans

- At least eight states (Alaska, Hawaii, Massachusetts, Minnesota, New Jersey, Texas, Washington, and Wisconsin) operate student loan programs.
- Some state programs are limited to certain students, such as students demonstrating financial need or students in nursing and teaching programs.
- Borrowing limits, interest rates, and loan fees vary considerably across state student loan programs. For instance, whereas Massachusetts's program charges no interest, Minnesota's program has a 6 percent fixed rate option and a 3.5 percent variable rate option.

College Student Loans

- Some public and private colleges operate their own student loan programs.
- Borrowing limits, interest rates, and loan fees vary among programs, but the terms typically are similar to federal and state loan programs.
- The University of California and California State University fund loans for certain students.

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Nonfederal Student Loans *(Continued)*

Private Student Loans

- Many banks, credit unions, and other financial institutions offer student loans.
- Typically, the financial institution coordinates with the student's college to determine how much a student should borrow. The amount typically is based on the student's total cost of attendance less other financial aid received.
- Private lenders typically consider credit history and require a co-signer. They vary the interest rate depending on creditworthiness, but usually their loans carry higher interest rates than federal student loans.

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Student Loan Repayments

Federal Loans Offer Income-Based and Traditional Repayment Plans

Seven Repayment Plans Available for Federal Direct Student Loans[a]

Plan	Monthly Payment	Repayment Period
Income-Driven Plans[b]		
Pay As You Earn	10 percent of discretionary income	Up to 20 years
Revised Pay As You Earn	10 percent of discretionary income	Up to 20 years
Income Based	10 percent of discretionary income[c]	Up to 20 years
Income Contingent	20 percent of discretionary income[d]	Up to 25 years
Traditional Plans		
Standard	Fixed	10 years
Graduated	Lower at first, then increases	10 years
Extended	Fixed or graduated	25 years

[a] Also applies to PLUS loans for graduate students but not parents.

[b] Payment must be less than payment under Standard plan to participate in Income Based and Pay As You Earn plans. For all plans, loan balances are forgiven at the end of repayment period. Discretionary income is the difference between a borrower's income and 150 percent of the poverty level (100 percent for the Income Contingent plan).

[c] For borrowers taking out their first federal loan after July 2014. Other borrowers pay 15 percent of discretionary income and have a 25-year repayment period.

[d] Payment also can be based on a 12-year repayment plan, adjusted for income.

Nonfederal Repayment Plans Vary by Lender

- State and college lenders sometimes offer repayment plans similar to the federal government, though each lender establishes its own offerings.
- Private lenders typically do not offer income-based repayment plans, though some are starting to offer them.

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Student Loan Default Rates

☑ Federal Loan Default Rates

- The federal government typically considers a loan to be in default if the borrower has not made a payment in more than 270 days (9 months).
- For federal loans, the federal government reports an average three-year cohort default rate of 10.4 percent for California institutions. This is slightly lower than the national average of 11.3 percent.

☑ Private Loan Default Rates

- Private lenders typically consider a student loan to be in default if the borrower has not made a payment in 30 to 90 days.
- Data from the six largest private lenders indicates that 2.5 percent of loans currently are 30 to 90 days past due and an additional 2 percent are more than 90 days overdue. Another 2 percent are considered to be likely uncollectable.

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State Actions to Reduce Student Loan Debt

☑ **Financial Aid Programs Reduce Student Borrowing**

- Longstanding state financial aid programs provide full tuition coverage and some nontuition coverage to low-income and middle-income students.

☑ **Recent Efforts to Shorten Time-to-Degree for Students**

- Over the past five years, the state has adopted various initiatives designed to move students though college more quickly, thereby reducing total college costs. These initiatives include creating the associate degree for transfer, significantly expanding student support programs at the California Community Colleges (CCC), creating the Full-Time Student Success Grant and the Completion Grant for CCC students, funding CCC Career Pathways Programs, and funding the California State University (CSU) Graduation Initiative.

☑ **Extended Tuition Freezes at Public Universities**

- Tuition at the University of California and CSU was flat from 2011-12 through 2016-17. Tuition at CCC was last raised in 2012-13.

☑ **Debt Relief for Students Affected When For-Profit Schools Close**

- Student Tuition Recovery Fund aids students affected by closures of certain private, for-profit institutions.

☑ **Student Loan Servicing Act Passed in 2016**

- The state created the Student Loan Servicing Office in the Department of Business Oversight to license and regulate student loan servicers.