

# **Higher Education Loan Program**

## **Legislative Report on Finance and Design Options**

Student Achievement Council Meeting

November 28, 2012

- Higher Education Loan Program (HELP) authorized in 2009, but not funded.
- HELP provides flexible options to meet student loan needs.
- Washington has 40-year commitment to need-based aid.
- Council already administers forgivable loan and repayment programs, as well as an Aerospace student loan.
- Washington Higher Education Facilities Authority (WHEFA) authorized to issue bonds to originate student loans.

Two viable options identified to provide initial and ongoing funding to the HELP program.

## **1. Sell Lottery-backed revenue bonds.**

- Several states have sold revenue bonds to support student loan programs.
- \$50 to \$100 million in bonds with debt service between \$3 and \$6 million would allow \$5,000 loans to 10 – 20,000 students.
- Program would be self-sustaining in about five years.

## **2. Work with private lenders with a state guarantee of loss coverage.**

- A state loan loss reserve program could encourage lender participation.
- A default rate of 5% and additional reserve of 3% and a projected volume of \$250 million would be funded at \$20 million.
- At a loan loss rate of 8%, the number of student loans could be leveraged at a ratio of more than 12 to 1.

- About 20 states offer student loan programs to complement federal programs.
- Interest rates for state programs are generally lower than 8%.
- States generally require a minimum credit score or a co-signer to minimize default risks.
- Several decisions would need to be made that balance benefits to students with program sustainability (i.e. repayment terms, borrower benefits).
- Federal and state regulations will need to be monitored for compliance.

- Several qualified loan servicers could be contracted to provide loan origination and servicing activities.
- Three organizations offered different models.
- The Council's administration of aid programs has a solid technical infrastructure that could be enhanced.
- Regardless of Council or outside administration, start-up funding would be needed until administration can be covered from origination fees and repayments.

- Several populations of students could be targeted by a state loan program to fill financial gaps.
- Annual borrowing is increasing with higher rates of increase in the community colleges and higher amounts in the four-year institutions.
- Unserved students in State Need Grant borrower higher amounts and have higher unmet need.
- Lower income students have higher levels of unmet need.
- Upper income students borrow more and are often limited to federal loans.
- Dependent students are limited by federal loan caps.
- Overall, students could benefit from a state loan program.