Consumer Guide to Higher Education and Student Loans

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Snapshot on Student Loan Debt

- Only form of household debt that continued to rise during the 2008 Recession
- 2nd largest balance after mortgage debt
- 44 million borrowers
- $1.5 Trillion in Student Debt
- Graduates leave school with average debt of $30,000

Source: NY Federal Reserve
Total student loan balances by age group

Source: New York Fed Consumer Credit Panel / Equifax
Women carry roughly \( \frac{2}{3} \) of the nation’s \$1.3 trillion in student debt.

Source: AAUW

womenemployed.org
STUDENT LOAN DELINQUENCY RATES

Methodology: This geographic analysis uses two primary datasets: credit reporting data on student debt from Equifax and income data from the American Community Survey.

Credit: MAPGIX
STUDENT LOAN Servicing

What is Student Loan Servicing?

• Servicers communicate with borrowers, collect payments, and help borrowers understand and enroll in repayment plans.
Background of Borrower Protections

*Borrower protections needed:*  
- No comprehensive servicing standards  
- Widespread complaints about servicing  
- Borrowers trapped by debt relief scams  
- Investigation of Navient/Sallie Mae and subsequent lawsuit
Background of Borrower Protections

**Strong standards introduced:**

July 2016 ED (“Mitchell Memo”) ordered comprehensive servicing standards:

- Incentives to provide accurate and high-quality service
- Consistent payment processing, credit reporting, payment histories, and billing statement practices
- Increased servicer oversight and accountability
Background of Borrower Protections

Help for struggling borrowers:

- High-touch contact:
  - Access to staff with enhanced training
  - “Waterfall” approach to discussing repayment options
  - Targeting borrowers at increased risk of default
Background of Borrower Protections

*Protections built into new contract requirements:*

- Bids based on the ability to implement borrower protections
- Three finalists as of January 2017
- Subcontractor use contemplated
- Entering final selection phase
Trump Administration’s Rollback of Borrower Protections

Rollbacks via the contracting process:

- Minimized the weight of negative past performance
- Eliminated the role for subcontracting
- Revoked the entire Mitchell Memo
Rollback of Borrower Protections

**Congressional Response:**
- Proposed Senate Bill required multiple servicers and that good performance form the basis of new business

**More Changes to Contracting Process:**
- Old recompete canceled
- New solicitation for vague “Next Generation” platform issued
Rollback of Borrower Protections

Rollbacks Continue:

• Collaboration with the CFPB terminated
  – ED claims CFPB’s protection of borrowers has undermined ED’s mission
  – ED claims it has exclusive jurisdiction over servicers

• 39 members of Congress object

• Illinois and 20 state attorney generals object
Rollback of Borrower Protections

*Protections Remain Necessary:*

- The Trump Administration has systematically stripped borrower protections
- Consumers still complain
- Defaults have risen
- States continue enforcement actions against servicers
  - IL, WA, PA, and CA have sued Navient. MA sued PHEAA (dba FedLoan Servicing)
Illinois Student Loan Bill of Rights

• *Help for Struggling Borrowers* – Student loan servicers must provide specialized employees to assist borrowers struggling with their student loan payments. Specifically, servicers must:
  – **Train** specialists to provide borrowers with all their repayment options;
  – **Explain** that borrowers may be eligible for repayment options tied to their income before offering any other repayment options; and
  – **Evaluate** a borrower’s financial situation and help the borrower determine which payment plan is appropriate.

• *Student Loan Ombudsman* – Creates a Student Loan Ombudsman in the Office of the ILAG to assist borrowers with their student loans.

• *Student Loan Servicing License* – Establishes a student loan servicing license with the Illinois Department of Financial and Professional Regulation.
Illinois Student Loan Bill of Rights

- Nov. 2017: Governor’s veto overridden with bipartisan support
- Bill takes effect Dec 31, 2018
- Other states and DC have student loan servicer licensing laws (CA, CT, DC, WA)
Servicers Attempt to Block State Laws Protecting Borrowers

• March 2018: U.S. Department of Education states it believes state laws protecting borrowers are preempted
  – Interpretation contradicted by multiple court rulings
• Servicers sue CT and DC based on the Department’s interpretation seeking to block the state laws protecting borrowers
• States have the right to protect borrowers and will continue to do so
What is Gainful Employment?

• The Gainful Employment Rule insures that post-secondary career programs provide students with careers that have income sufficient to pay off their student loans.

• The rule requires that debt-to-earnings ratios do not exceed certain thresholds.
GAINFUL EMPLOYMENT (GE)

Background

• The U.S. Dept. of Education finalized a gainful employment rule in 2011. That rule was challenged in court and overturned.

• The Department finalized a new gainful employment rule in 2014. That rule was challenged and upheld in court in June 2015.

• The first debt-to-earnings ratios under the rule were released in January 2017.
  – 98% of failing programs were from for-profit schools.
GAINFUL EMPLOYMENT (GE)

Current State of GE

- March 2017: U.S Dept. of Education extended the time for schools with failing programs to appeal.
- July 2017: U.S. Dept. of Education began delaying implementation of key parts of the rule.
  - Programs with failing debt-to-earnings ratios will not have to disclose those ratios to students until July 2019, at which time the Dept. will have a new rule.
  - The ruling also extends the time schools have to appeal those calculations.
What is Borrower Defense to Repayment?

• Borrower Defense to Repayment is a process that allows students who are defrauded by their schools to have their federal loans canceled.
BORROWER DEFENSE TO REPAYMENT (BD)

Background

• Passed by Congress in the 1990s. Not well defined and rarely invoked.

• Investigations by state attorneys general revealed widespread fraud at large for-profit schools like Corinthian Colleges.

• Applications increased dramatically:
  – Over 100,000 applications since 2014.
  – Obama Administration approved over 30,000 claims, all against large for-profit schools

• August 2015: U.S. Department of Education initiated a public rulemaking to increase protections for students and taxpayers in the BD rule.
BORROWER DEFENSE TO REPAYMENT (BD)

Current State of BD

• The new BD rule became law in Nov. 2016 and was set to take effect in July 2017.
• June 2017: U.S. Dept. of Education rescinded the new rule and started the public rulemaking process over.
• July 2017: Attorney General Madigan and 18 other state attorneys general sued U.S. Dept. of Education for rescinding the rule without public notice and comment.
  – June 2017 - a preliminary injunction was issued barring application of this rule.
State Updates

Pending Governor’s signature:

- SB 2439 – Professional licenses protections
- SB 2559 – Education loan information pilot program

Topics to Cover

Factors to consider when:

- Picking a School
- Financing Education
- Repaying Loans
Smart College Shopping:
Questions to ask Potential Schools

• Accreditation
• Graduation Rate
• Employment Rate, Jobs and Salaries of Graduates
• Default Rate
• Cost of Attendance
Sample College Scorecard


Average Annual Cost
$13,527

Graduation Rate
60%

Salary After Attending
$52,200

Costs

Financial Aid & Debt

Graduation & Retention

Earnings After School

Student Body
### Costs

**Average Annual Cost**

- $13,527
- ABOUT AVERAGE

By Family Income

Depending on the federal, state, or institutional grant aid available, students in your income bracket may pay more or less than the overall average costs.

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<th>FAMILY INCOME</th>
<th>AVERAGE COST</th>
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<tr>
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<tr>
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*CALCULATE YOUR PERSONAL NET PRICE*
Net Price Calculator

Cost of Attendance
– Grants/Scholarships
= Net Price
Financing Higher Education

- Grants & Scholarships
- Federal Loans
- Private Loans
- Institutional Loans
Federal Loans – Repayment Options

– **Standard Repayment Plan** – fixed payment amounts for 10 years

– **Graduated Repayment** – payments are lower and increase over time

– **Extended Repayment** – extends the loan from 10 years up to 25 years to lower borrower’s monthly payments (can be fixed or graduated amount)
Income-Driven Repayment Plans

- **Pay as You Earn or Revised Pay As You Earn** – payments are 10% of discretionary income and payments are calculated on income and family size; any outstanding balance will be forgiven in 20 or 25 years

- **Income-based repayment** – payments are 10 or 15% of discretionary income and payments are calculated on income and family size; any outstanding balance will be forgiven in 20 or 25 years; may have to pay income tax on forgiven debt
Income-Driven Repayment Plans

- **Income-Contingent Repayment Plan** – either 20% of discretionary income or the amount you would pay on a repayment plan with a fixed payment over 12 years; payments are calculated on income, family size, and total loan amount; any outstanding balance will be forgiven in 25 years; available to parent borrowers who consolidate their Parent PLUS Loans into a Direct Consolidation Loan

- **Income-Sensitive Repayment Plan** – monthly payment is based on annual income; 15 years of payments
Forbearance and Deferment

• Postponement:
  – Deferment – temporary pause to student loan payments for qualifying reasons
  – Forbearance – period in which the borrower’s monthly loan payments are temporarily suspended or reduced, generally due to financial hardship
Federal Loan Forgiveness, Cancellation, and Discharge

- Disability Discharge
- Defense to Repayment
- Public Service Loan Forgiveness Program
- Teacher Loan Forgiveness Program
Federal Loan Default

The Cost of Defaulting
The Department of Education has nearly unlimited power to recover defaulted student loans

- Administrative wage garnishment
- Tax refund interception
- Social Security benefits offsets
- No statute of limitations
- Extremely limited rights in bankruptcy
- Ineligible for new federal loans or grants
- Impacts credit report
Action Items

• Contact the Attorney General Madigan’s Student Loan Helpline:
  – 1-800-455-2456 (TTY: 1-800-964-3013)
  – File a complaint at www.illinoisattorneygeneral.gov/consumers/

• Education Materials and Presentations available from the Attorney General’s Office
Handouts from Presentation:

**Student Loan Assistance: Helping Student Borrowers Manage Debt**
*Find out how to determine your loan status and contact your loan servicers to review repayment options.*

http://www.illinoisattorneygeneral.gov/consumers/Student_Loan_Assistance_Brochure.pdf

**Student Loan Debt Relief: Do Your Homework**
*Get step-by-step instructions on dealing with student loan debt.*

English: http://www.illinoisattorneygeneral.gov/consumers/Student_Loan_Debt_Relief_Do_Your_Homework.pdf
Español: http://www.illinoisattorneygeneral.gov/consumers/Student_Loan_Debt_Relief_Do_Your_Homework_SPANISH.pdf

**College Prep: How to Make the Right Choice for Your Future**
*Remember to consider these important factors when choosing a college or university.*


Additional Resources:

**Student Loan Resource Guide**


**File a Consumer Complaint**

http://www.illinoisattorneygeneral.gov/consumers/filecomplaint.html