



NCHER

National Council of Higher Education Resources



Trends in Graduate Education and Education Financing

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National Council of Higher Education
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Harvard Graduate School of Education –
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What We Will Cover

- **What's Going on in Washington?**
- **Outside the Box Financing Options**
- **Putting Borrower Debt into Perspective**
- **Delinquency and Default – What Does the Data Tell Us?**
- **ROI for Graduate Degrees – Despite the press, it's still a positive story.**

Washington Update

Items not directly tied to higher education:

- **Fiscal Cliff** – Jan 2nd action pushed sequestration back 2 months
 - Locked in Bush tax cuts and paid for sequestration delay.
- **Expiring Continuing Resolution** – pays bills absent an approved budget
 - March 27th deadline or possible government shutdown
- **Debt Ceiling** – New authority needed for the government to borrow \$\$
 - Congress suspended action until May 18th – “No Budget , No Pay Act”
- **President’s FY 2014 Budget**
 - February 4th deadline missed, 4th time in 5 years

Higher Ed Benefits of Fiscal Cliff Deal

- **Five-year extension to the American Opportunity Tax Credit.**
- **Tuition and Fees Deduction extended through the 2013 tax year.**
- **Coverdell Education Savings Accounts contribution limit increased to \$2,000 and the account may be used for elementary and secondary school expenses.**
- **Permanently repealed five-year limit for deducting up to \$2,500 via the Student Loan Interest Deduction.**

Washington Update

Items directly tied to higher education:

- **Pell Shortfall** – previously thought to face a \$5.7 billion shortfall in 2014, now has another year on sound financial footing. The projected \$2 billion shortfall in 2015 is much smaller than expected. Long-term fix still needed.
- **Interest Rate Fix** – Same song, new verse; July 1 deadline
 - Watch for possible shift to variable rate with cap
- **Petri Bill and Others** – markers for reauthorization with little to no chance of becoming law
- **Reauthorization** – If, when and why bother???
- **Sequestration's Potential Impact on Higher Education**

Sequestration Impact on Higher Ed Financing

- \$85 billion in automatic cuts on March 1, 2013, if no action.
 - Down payment on \$1.2 trillion in cuts over next 10 years.
- Pell grant exempt from cuts in FFY 2013, and mandatory Pell funding is exempt from sequestration, but overall Pell spending could be impacted because of lowered discretionary spending caps in 2014 and beyond. Cuts to maximum Pell by as much as \$400.
- Across the board cuts of **5.1%** to programs like Federal SEOG and work-study (almost **9%** for the remainder of this year).
- Higher loan fees on all Federal Direct Loans.

Washington Update

- Sens. Ron Wyden (D., Ore.) and Marco Rubio (R., Fla.) bill that would require states to make more accessible the average salaries of college graduates.
- President Obama's State of the Union address put colleges on notice:
 - *“Taxpayers cannot continue to subsidize higher and higher and higher costs of higher education.”*
 - *“Colleges must do their part to keep their costs down, and it's our job to make sure they do.”*
 - *“Tonight, I ask Congress to change the Higher Education Act, so that affordability and value are included in determining which colleges receive certain types of federal aid.”*

Interesting Ideas for Redesign

\$3.3 Million Grant from Gates Foundation to Reimagine Financial Aid and Help Increase Postsecondary Access, Success and Completion

- 14 organizations received a share of the grant funds, including:
 - Institute for Higher Education Policy (IHEP)
 - National Association of Student Financial Aid Administrators (NASFAA)
 - National College Access Network (NCAN)
 - New America Foundation (NAF)
 - **The Institute for College Access & Success (TICAS)**
 - Young Invincibles

Interesting Ideas for Redesign

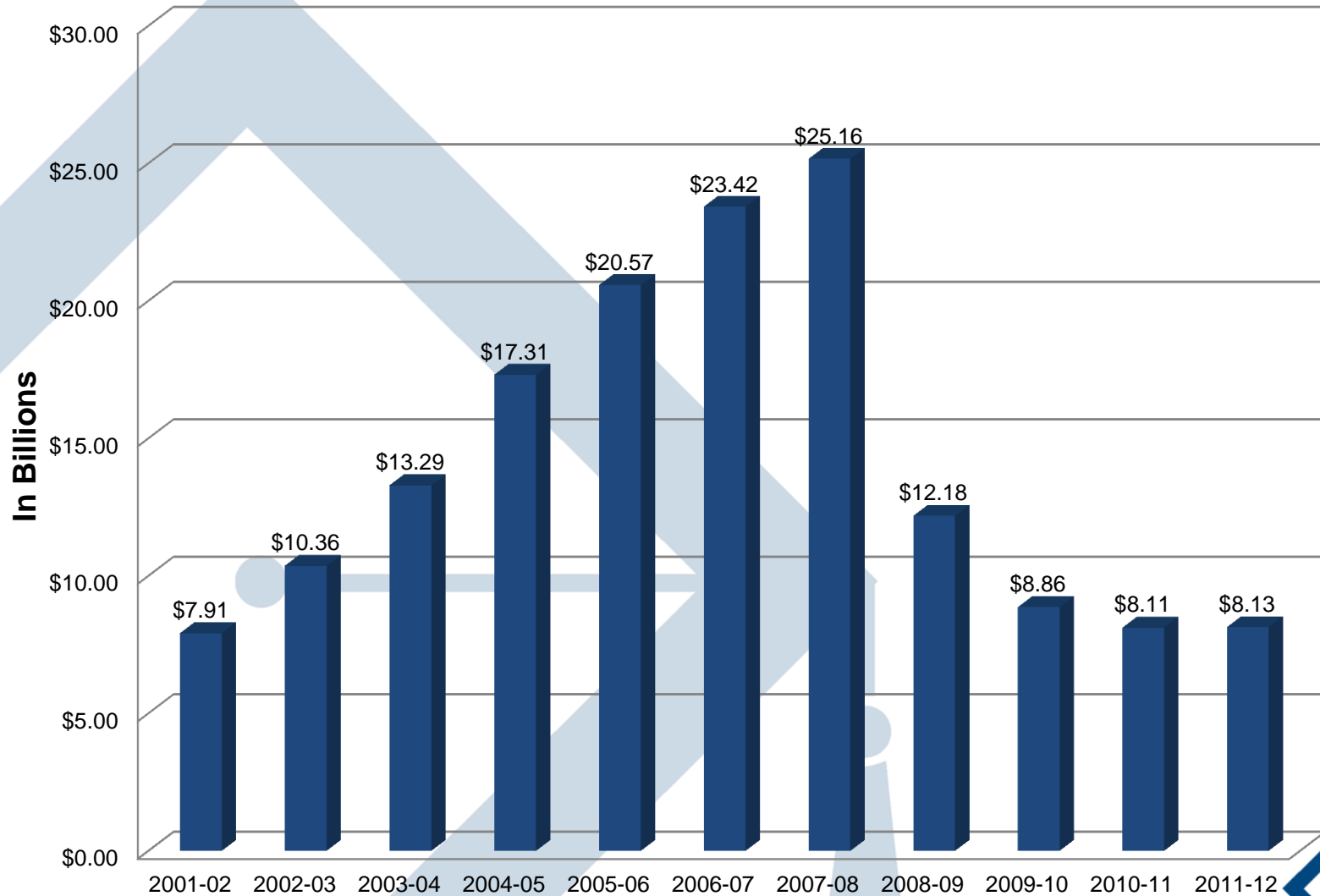
Common Themes:

- **Pell Grant should remain bedrock program**
- **Single loan program with income-based repayment the norm**
- **Better target (or eliminate) tax incentives**

Alternative Funding

- **Expansion of Traditional Private Education Loans**
- **Peer-to-Peer Loan Programs**
- **Peer-to-Peer Investment (non-loan) Programs**

Non-Federal Loans



Source: College Board

Innovative Funding Alternatives

SoFi

SoFi = Social and Financial benefit

- “SoFi connects students and alumni through a dedicated lending pool, where students, alumni and schools all benefit. Alumni earn a compelling return, students receive a lower loan rate than their private or federal options, and both sides benefit from the connections formed.”
- \$130 million loans in process
- 79 participating schools

Innovative Funding Alternatives -

WHAT WE DO

Pave is a community where...

PROSPECTS

Ambitious and creative young people who could achieve more with the right funding and professional wisdom behind them

MEET

BACKERS

Accomplished individuals who want to put their money, experience and connections to good use in a new way

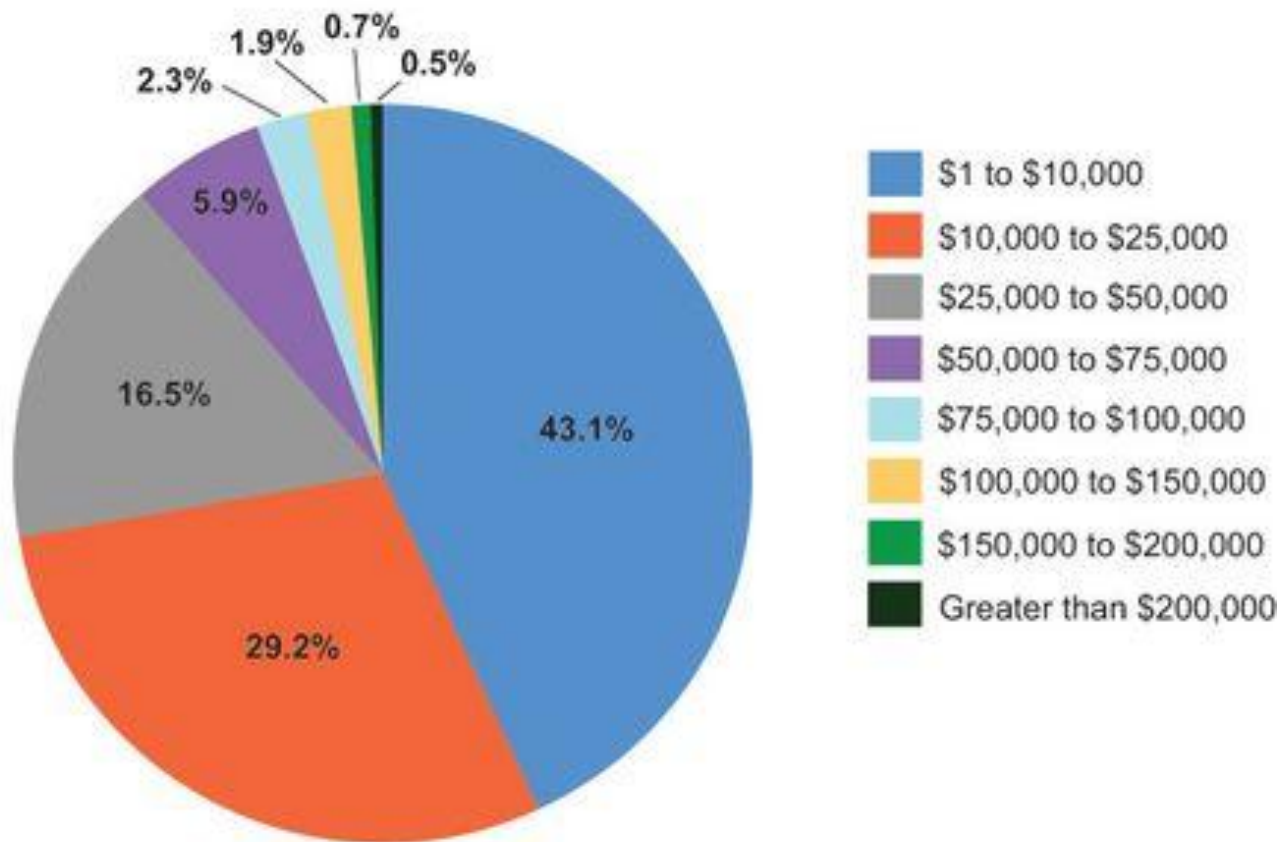
*...and come together in an innovative **social-financial agreement** that's designed to **unlock potential** and create a long-term sense of **shared purpose***

A Look at Student Loan Debt

- **\$1 Trillion Hype – is this really newsworthy?**
- **Average Borrower Debt – 4-year Bachelor's Degree – all loan types**
 - TransUnion Study: \$23,829 as of 2012
 - Fair Isaac Study: \$27,253 as of 2012
 - TICAS: \$26,600 as of 2011
 - College Board: Public - \$23,800; Private - \$29,900 as of 2012
- **Pressures on National Debt and Direct Loan Funding**
 - Can the U.S. Government continue to borrow \$100 billion a year from the Chinese to make loans to American students?

Federal Reserve Bank of NY

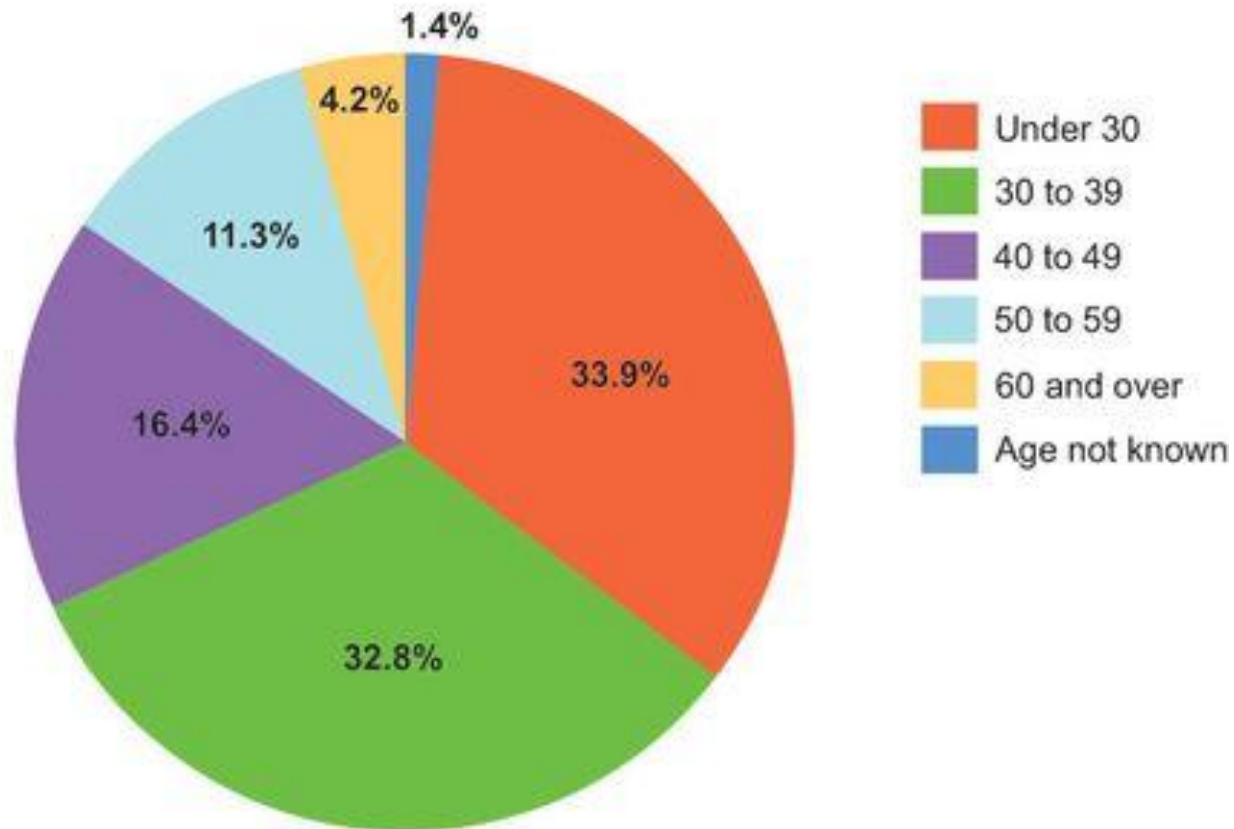
Student Loan Borrowers by Level of Balance in 2011: Q3
Total Number of Borrowers: 37 Million



Source: FRBNY Consumer Credit Panel/Equifax.

Federal Reserve Bank of NY

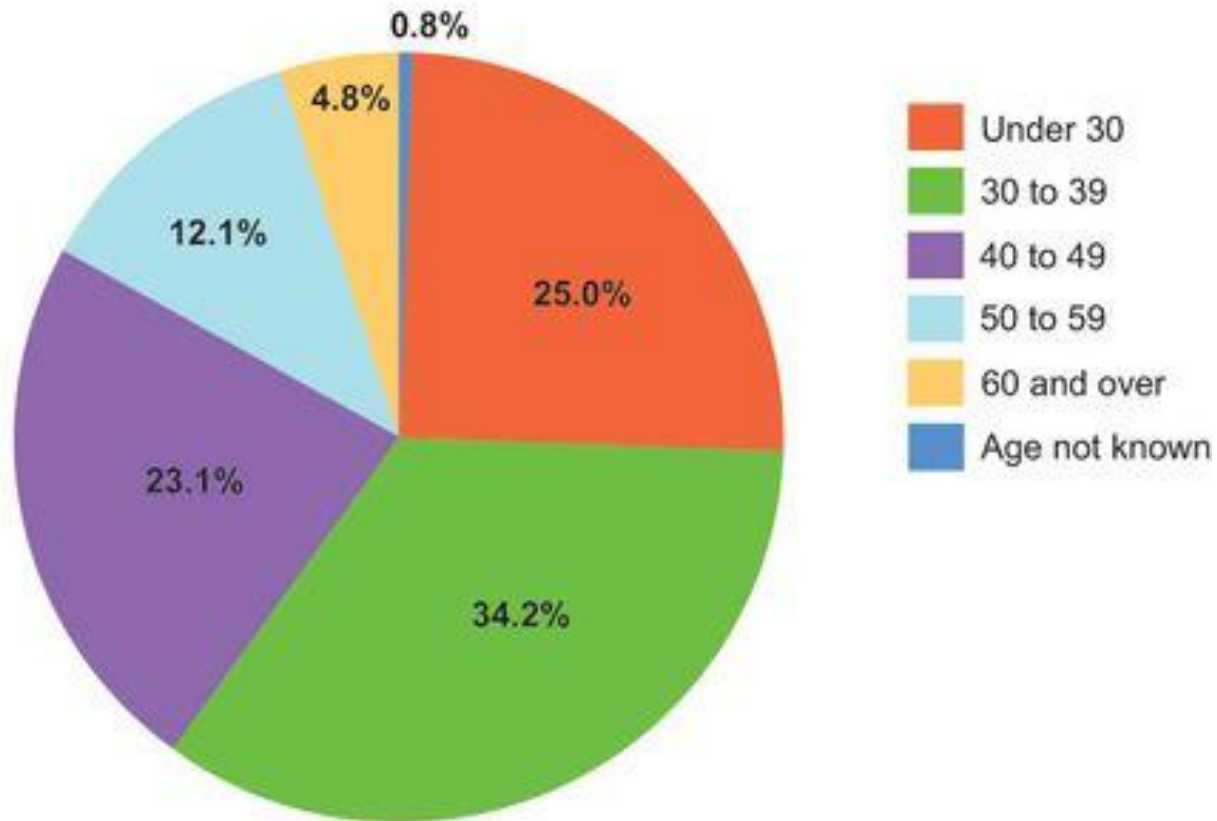
Student Loan Balance by Age in 2011: Q3
Total Loan Balance: \$870 Billion



Source: FRBNY Consumer Credit Panel/Equifax.

Federal Reserve Bank of NY

Past Due Student Loan Balance by Age in 2011: Q3
Total Past Due Balance: \$85 Billion

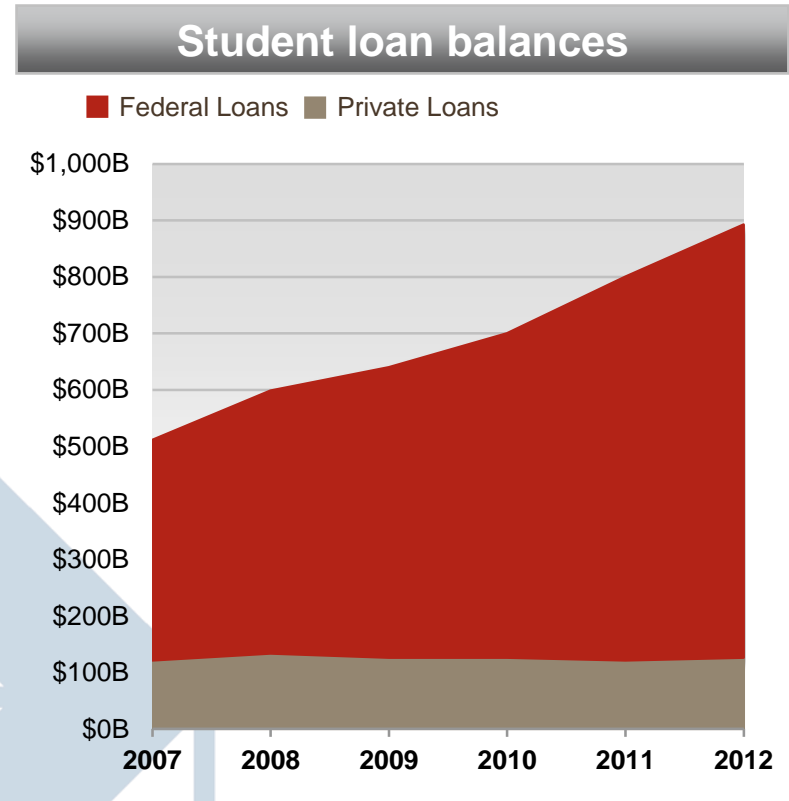
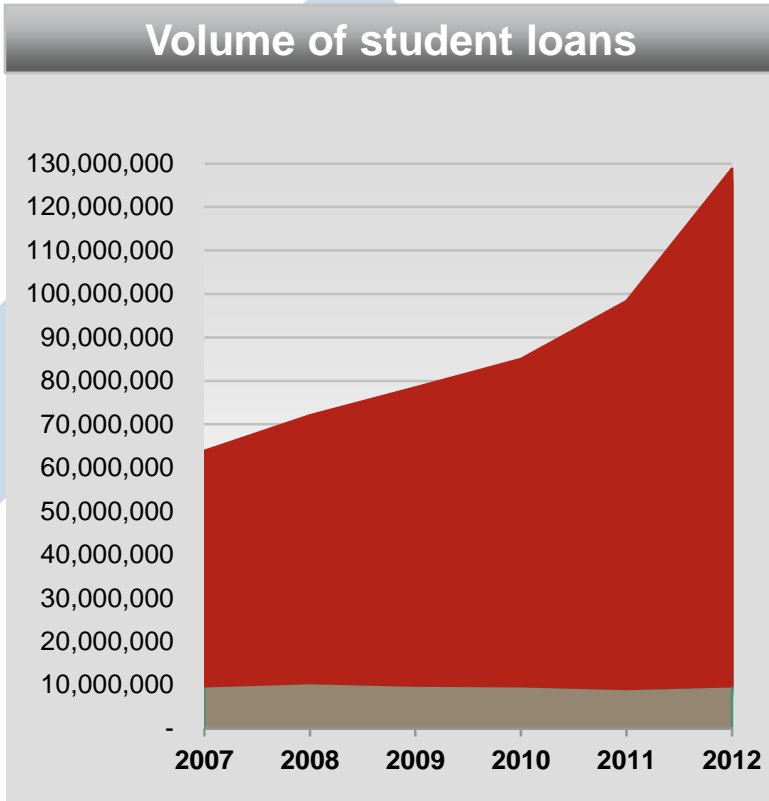


Source: FRBNY Consumer Credit Panel/Equifax.

TransUnion Study

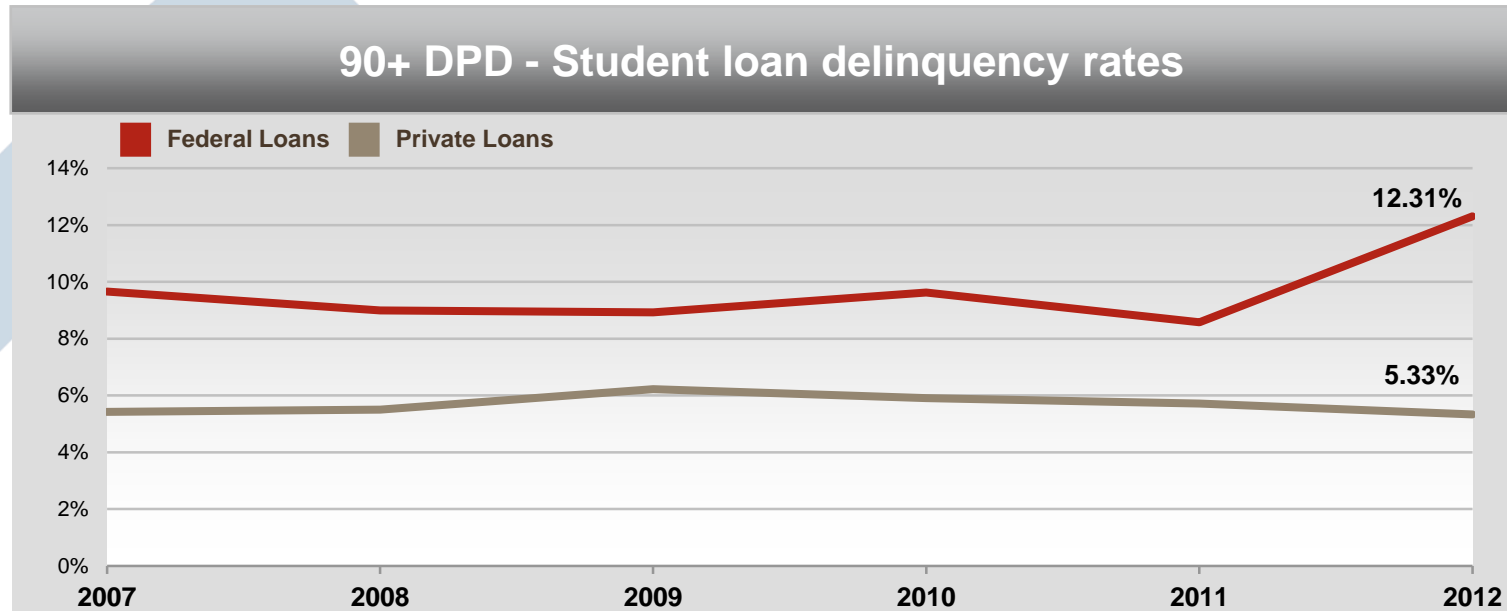
- Between 2007 and 2012, student loan balances increased by 75% to \$893 billion.
- From 2007 to 2012, delinquencies on federal loans were up substantially, while delinquencies on private student loans decreased.
- More than half of student loan balances are in deferment.
- From 2007 to 2012, the average student loan balance per borrower increased 30% to **\$23,829**.

The number of student loans and their outstanding balances have ballooned between 2007 and 2012



- Since 2007, total student loan balances have increased 75% to \$893 billion
- In 2012, federal loans made up 92% of student loan accounts and 86% of overall balances

90+ DPD delinquencies are up for federal loans but down for private student loans



Between Q1 2007 and Q1 2012:

- Federal loan delinquencies are up 27%
- Private loan delinquencies are down 2%

In comparison to other products, student loan delinquencies are quite high

Loan Type	Account 90+ DPD Rate Q1 2012
Federal Student Loans	12.31%
Private Student Loans	5.33%
Mortgages	5.15%
Home Equity LOCs	1.37%
Credit Cards	0.91%
Auto Loans	0.34%

FICO Study

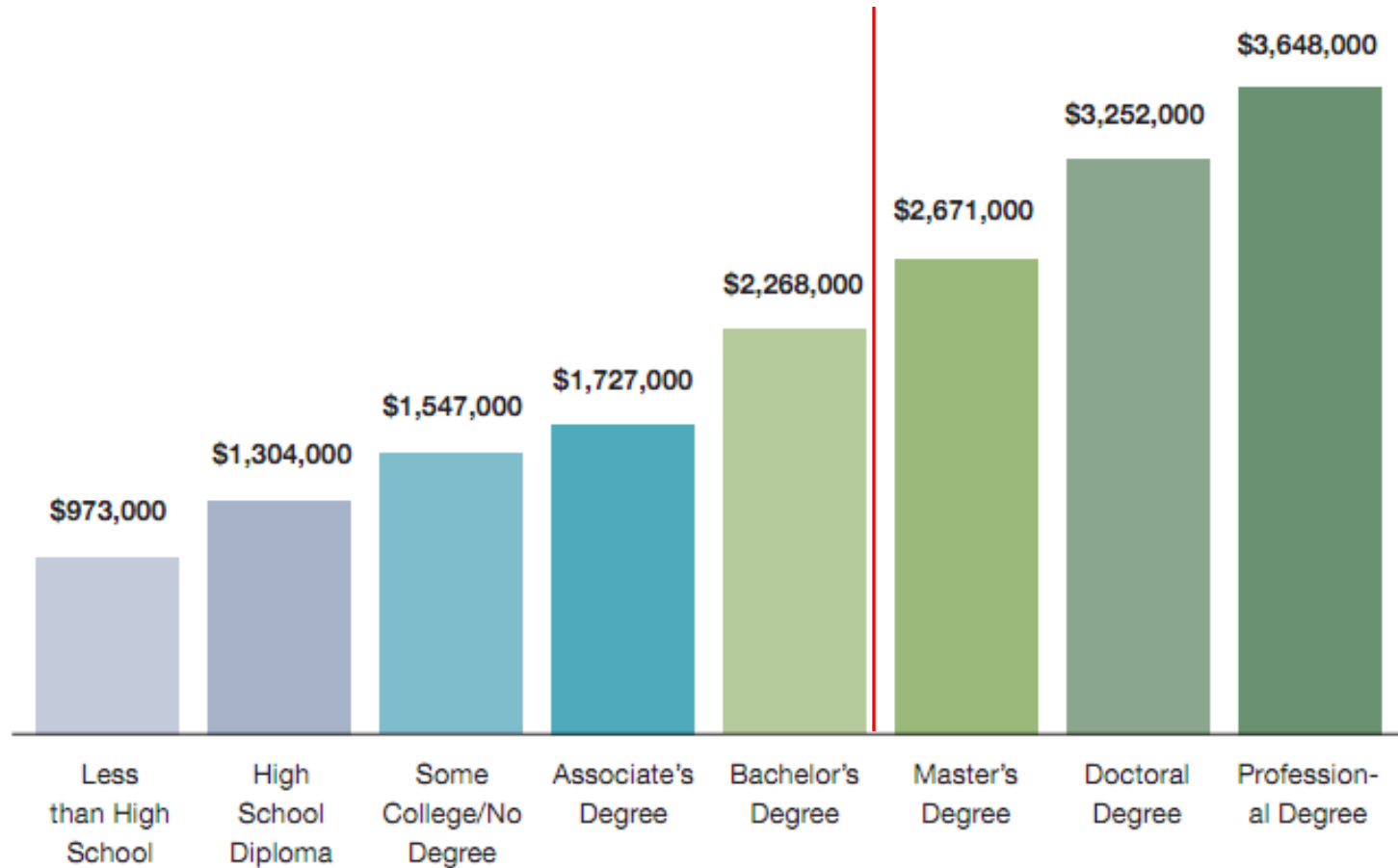
- Research by FICO Labs has found that, as a group, individuals taking out student loans today pose a significantly greater risk of default than those who took out student loans just a few years ago.
- Average borrower FICO scores for loans taken out between 2010-2012 are 30 points lower compared to borrowers taking out loans between 2005-2007.
- The delinquency rate between 2005-2007 on student loans that were originated in the three months after **October 2005 is 12.4 percent**. The comparable figure between 2010-2012 for student loans that were originated in the three months after **October 2010 is 15.1 percent**.
- Average amount of student loan debt in 2005 was \$17,233. By 2012, it had ballooned to more than **\$27,253** – an increase of 58 percent in seven years. By contrast, the average credit card balance and the average balance on car loans owed by U.S. consumers actually decreased during the same period.

Return on Investment for Graduate Degrees

- **General Statistics**
- **Georgetown Study**
- **New Car Example**

Wage gains from additional education

FIGURE 1: MEDIAN LIFETIME EARNINGS BY HIGHEST EDUCATIONAL ATTAINMENT, 2009 DOLLARS

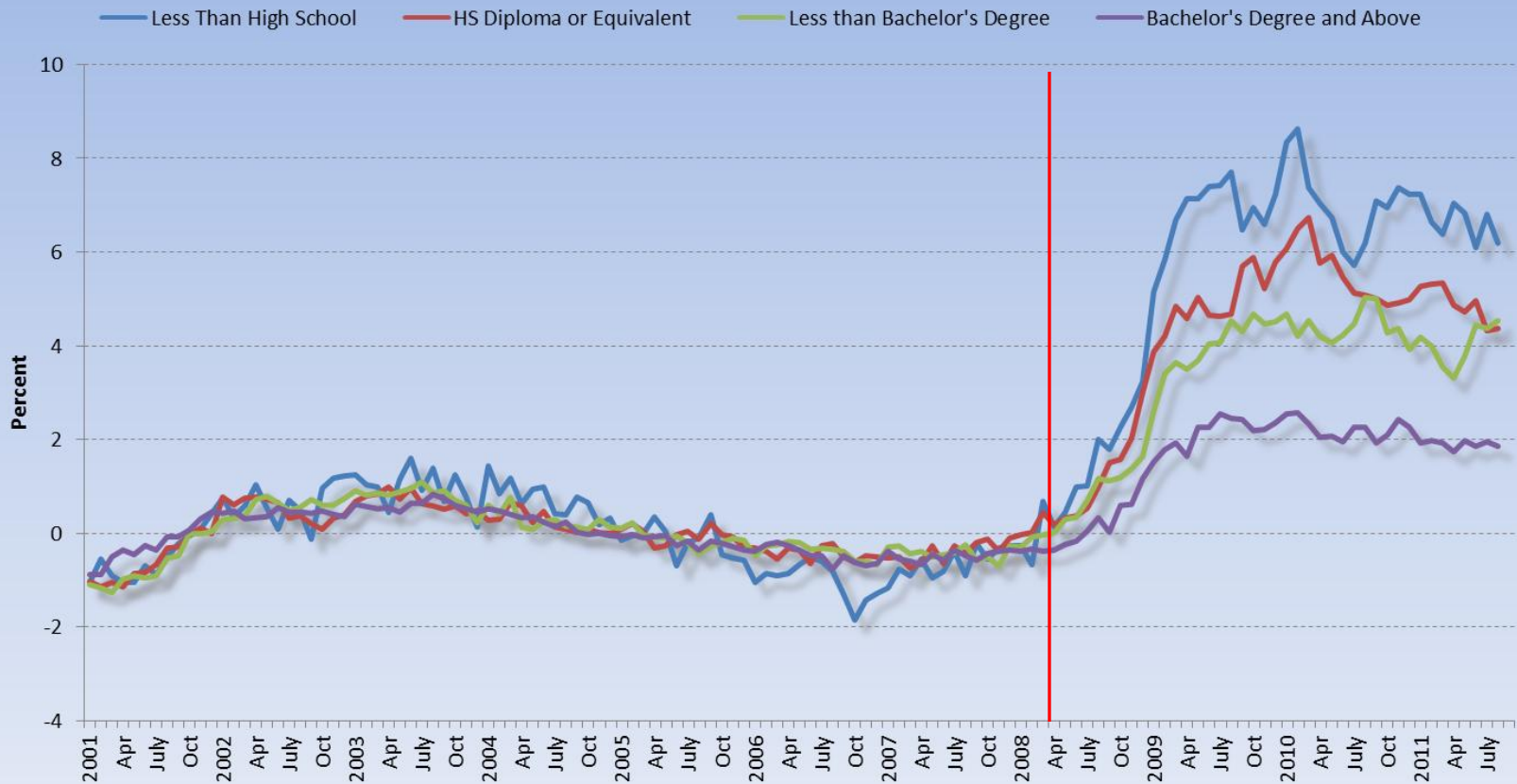


Source: Carlo Salerno

Current recession impact

Indexed monthly unemployment rate by educational attainment

(Index = monthly average 2001M1 through 2007M12)



Source: Carlo Salerno

Georgetown University Center on Education and the Workforce

*What's it Worth? The Economic Value of
College Majors*

<http://cew.georgetown.edu/whatsitworth>

“The bottom line is that getting a degree matters, but what you take matters more,” said Anthony P. Carnevale, the Center’s director.

G'Town Study, Cont'd.

The top 10 majors with the highest median earnings are:

- Petroleum **Engineer** (\$120,000)
- Pharmacy/pharmaceutical Sciences and Administration (\$105,000)
- Mathematics and Computer Sciences (\$98,000)
- Aerospace **Engineering** (\$87,000)
- Chemical **Engineering** (\$86,000)
- Electrical **Engineering** (\$85,000)
- Naval Architecture and Marine **Engineering** (\$82,000)
- Mechanical **Engineering**, Metallurgical **Engineering** and Mining and Mineral **Engineering** (each with an media earnings of \$80,000)

G'Town Study, Cont'd.

The top 10 majors with the lowest median earnings are:

- **Counseling/Psychology (\$29,000)**
- **Early Childhood Education (\$36,000)**
- **Theology and Religious Vocations (\$38,000)**
- **Human Services and Community Organizations (\$38,000)**
- **Social Work (\$39,000)**
- **Drama and Theater Arts, Studio Arts, Communication Disorders Sciences and Services, Visual and Performing Arts, and Health and Medical Preparatory Programs (each at \$40,000)**
- **Lowest earning majors “worth it,” net almost \$150,000 over a lifetime**

G'Town Study, Cont'd.

Liberal Arts and Humanities majors end up in the middle of the pack in terms of earnings and employment.

- They are the third most popular major group, and earn median incomes of \$47,000.
- Moreover, about 40 percent of people with these majors obtain a graduate degree, **reaping a return of almost 50 percent.**
- Liberal Arts and Humanities majors generally fare well in the workforce, ending up in professional, white-collar, and education occupations.

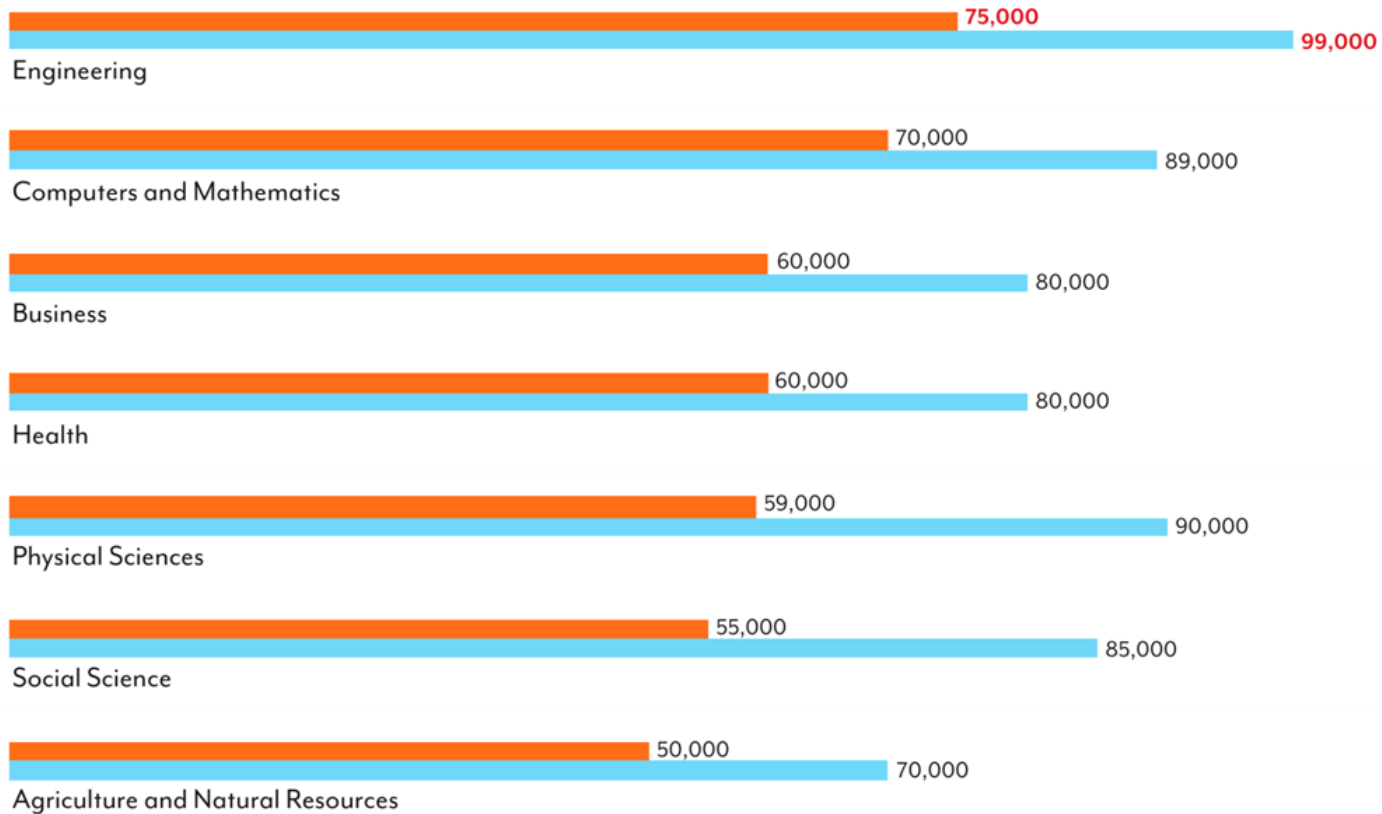
G'Town Study, Cont'd.

High and Low Median **Graduate Degree** Earnings :

- Health and Medical Preparatory Programs (190 percent)
- Miscellaneous Social Sciences (134 percent)
- Zoology (123 percent)
- Atmospheric Sciences and Meteorology (1 percent)
- Studio Arts (3 percent)
- Petroleum Engineering (7 percent)

G'Town Study, Cont'd.

MEDIAN EARNINGS BY MAJOR GROUP*



Bachelor's Degree Only
Masters Degree

New Car Theory



**2012 Toyota Camry -
\$25,995 MSRP**

New Car Theory

- According to a Forbes survey, the average price of a new car in 2012 was \$30,303. TrueCar.com has it at \$30,748.
- For argument's sake, let's look at a \$26,000 car loan vs. a \$26,000 student loan.

New Car Theory

**\$26,000 Stafford Loan –
6.8% / 120 mos.**

- **\$299.21 monthly payment**
- **\$35,905 total repaid**
- **Numerous repayment options.**
- **Numerous deferment/forbearance options.**
- **Potential loan forgiveness.**
- **Default at 360 days.**
- **Can't repossess your education!**
- **Delinquency rate: 12.31%**

**\$26,000 Car Loan – 3.7% / 60
mos.**

- **\$475.32 monthly payment**
- **\$28,519 total repaid**
- **Loses 9% of value when driven off the lot; 19% after one year and 60% after 5 years.**
- **No deferment options.**
- **Default at 90 to 120 days.**
- **Car is repo'd if you don't pay!**
- **Delinquency rate:
0.34%**

Final Takeaways

- Washington puts the “**fun**” in **dysfunctional**...
- Federal budget crisis will impact every decision Congress makes for the foreseeable future.
- Non-government student loan funding will grow.
- Student loans are not the next “bubble”, but that won’t keep politicians from pandering for student votes!
- Graduate degrees continue to be a good investment, but borrowers still must choose degree, and debt, wisely.