

# Wisconsin Student Debt Task Force

June 3, 2020

# Agenda Overview

1. Income Driven Repayment/Public Service Loan Forgiveness Awareness
2. Consumer Protection
3. Finance
4. Refinancing
5. Loan Counseling
6. Program Spotlights

# **Income Driven Repayment/Public Service Loan Forgiveness Awareness**

# Public Service Loan Forgiveness (PSLF) and Income Driven Repayment (IDR) Awareness

## PSLF

- Debt is discharged after 10 years for borrowers who:
  - ✓ Make all payments on-time and in full
  - ✓ Have a direct loan (post 2010)
  - ✓ Worked for a qualified employer
  - ✓ Used an eligible repayment plan

## IDR

- Eligible plans for PSLF
- Puts borrowers on a path to loan forgiveness (even if a borrower is ineligible for PSLF)
- Decent option for those with a short-term financial struggle or relatively low-income
- Income must be recertified annually

# Income-Driven Repayment Options

Repayment Plan	Terms
Pay as You Earn (PAYE)	<ul style="list-style-type: none"> <li>Monthly payment: 10 percent of discretionary income – spouse’s income considered only if taxes are filed jointly</li> <li>Forgiveness: after 20yrs of repayment</li> </ul>
Revised Pay as You Earn (REPAYE)	<ul style="list-style-type: none"> <li>Monthly payment: 10 percent of discretionary <u>household</u> income</li> <li>Forgiveness: after 20yrs for undergrads, 25yrs for grad degrees</li> </ul>
Income-Based	<ul style="list-style-type: none"> <li>Monthly payments: 10 percent of discretionary income if loan issued after July 1, 2014 OR; 15 percent of discretionary income if loan issued before July 1, 2014</li> <li>Spouse’s income considered if taxes are filed jointly</li> <li>Forgiveness: after 20yrs of repayment if loan issued after July 1, 2014 OR; after 25yrs of repayment if loan issued before July 1, 2014</li> </ul>
Income-Contingent	<ul style="list-style-type: none"> <li>Monthly payment: 20 percent of discretionary income OR; fixed plan amount over 12 years</li> <li>Spouse’s income considered if taxes are filed jointly</li> <li>Forgiveness: after 25 years</li> </ul>

*\*Note:  
Borrowers who do not choose otherwise are placed into the Standard Repayment Plan by default.*

<https://studentaid.gov/manage-loans/repayment/plans>

# Income Driven Repayment Confusion

The U.S. Department of Education collected a sample of 1.2 million borrowers in IDR across the 6 largest servicers that administer federal student loans between November 2013 and October 2014. Of those 1.2 million borrowers:

- 57 percent did not recertify their income on-time
  - Of those who didn't recertify on-time, 31 percent went into deferment or forbearance

*Note* - Federal Legislative Improvement: FUTURE Act of 2019

<https://www2.ed.gov/policy/highered/reg/hearulemaking/2015/payee2-recertification.pdf>

# Public Service Loan Forgiveness (PSLF) Confusion

## As of March 2020:

- Only 10 percent of applicants have been approved for PSLF.
- Of the 90% of applications that were denied:
  - 14% were issued to borrowers who did not have an eligible loan
  - 23% were missing information on their application
  - 59% of denials were issued due to a combination of the following reasons:
    - Borrower was not enrolled in an IDR plan
    - Borrower made fewer than 120 payments
    - Not all payments were made on-time or in-full
    - Not all payments were made when the applicant was at an eligible employer

<https://studentaid.gov/data-center/student/loan-forgiveness/pslf-data?sf114954056=1>

# IDR & PSLF Awareness: Policy Options

## State of Colorado: 2019 Legislation

- Charges Department of Personnel with:
  - Developing informational materials on PSLF and IDR
  - Disseminating materials to relevant agencies
- Charges relevant state agencies with:
  - Disseminating PSLF and IDR info to potentially eligible employees

## Dane County, WI: 2014 Resolution

- Charges Department of Administration with:
  - Informing county employees of PSLF eligibility
  - Assisting with the necessary paperwork
- Passed Unanimously

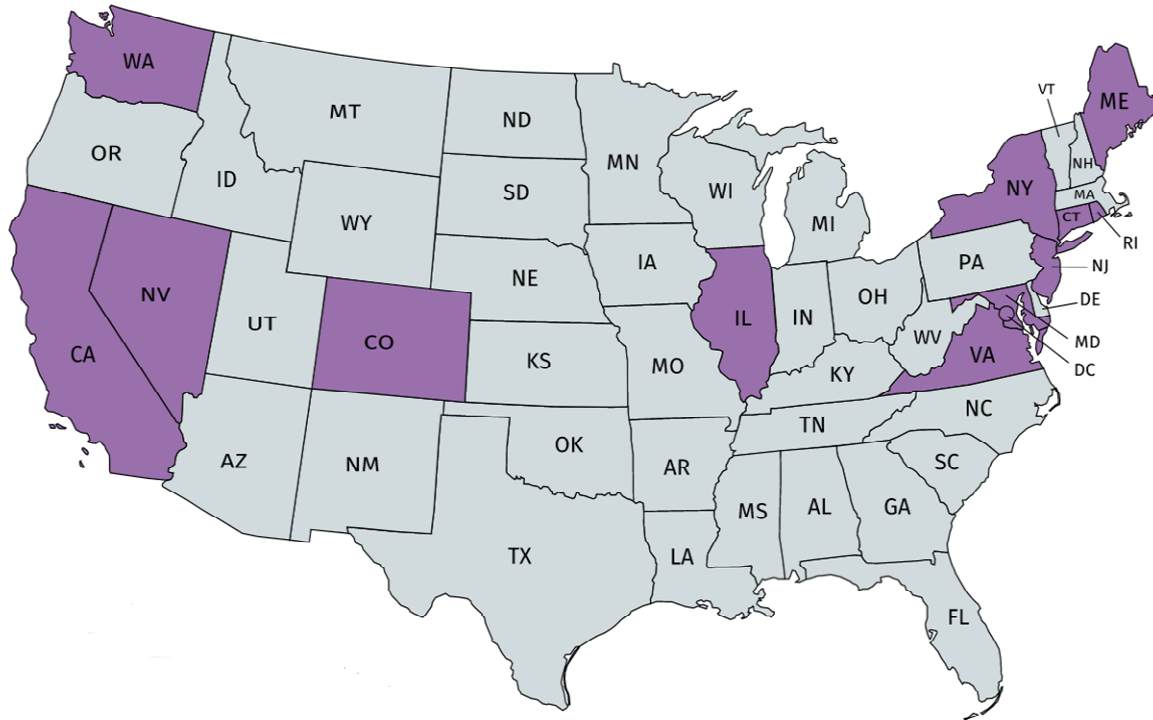
# Consumer Protection

# Consumer Protection:

## Student Loan Servicing

- 2019 Dept of Ed Office of Inspector General report:
  - 92 percent of monthly reports on calls with borrowers included instances of insufficient information on repayment options
  - Federal Student Aid (FSA) shortcomings:
    - Failed to enforce rules
    - Had not developed strategy to mitigate non-compliance
    - Had not analyzed non-compliance to identify trends
- Consumer Financial Protection Bureau formerly shared borrower complaints with Dept of Ed
- Lawsuits:
  - Consumer Financial Protection Bureau vs. Navient
  - MS, CA, PA, IL, WA vs. Navient

# Consumer Protection: Borrower Bill of Rights States



## Designee

- Approve servicers
- Assist borrowers
- Monitor federal regulation
- Analyze complaints

## Servicers

- Obtain operating license
- Provide progress reports to borrowers
- Evaluate IDR suitability before forbearance

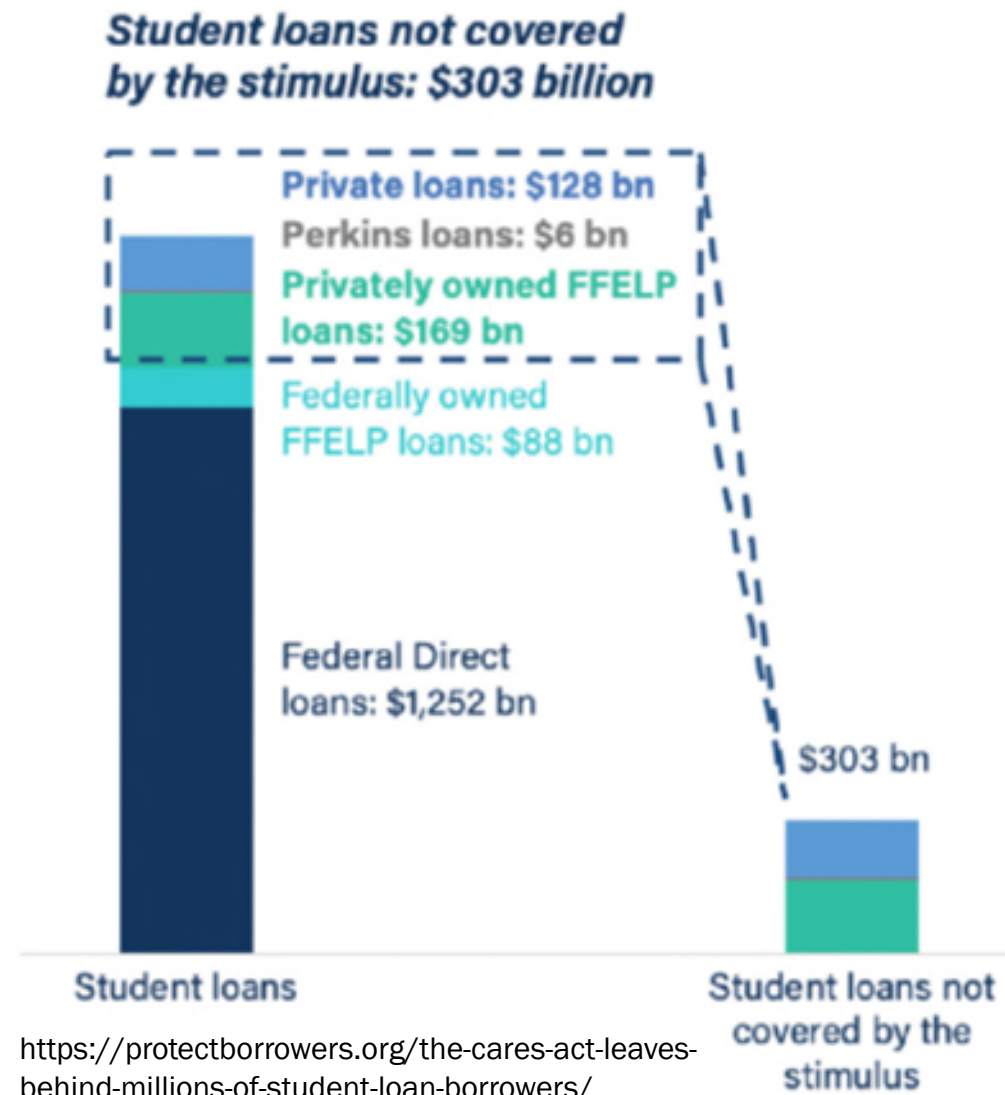
# Consumer Protection: Student Borrower Bill of Rights

State	Licensing Requirement	Private Right of Action	Prohibitive Acts	Affirmative Duties	IDR Before Forbearance
Connecticut	Yes	No	Yes	No	No
Maryland	No	Yes	Yes	Yes	No
Colorado	Yes	Yes	Yes	Yes	Yes
Maine	Yes	Yes	Yes	Yes	Yes
New Jersey	Yes	Yes	Yes	Yes	Yes

<https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-steppingup-studentloans-oct2019.pdf>

## Borrowers Bill of Rights: Implications for Private Debt During COVID

- 10 states have secured agreements with student loan servicers to offer debt relief to borrowers whose loans are not covered by the CARES Act.



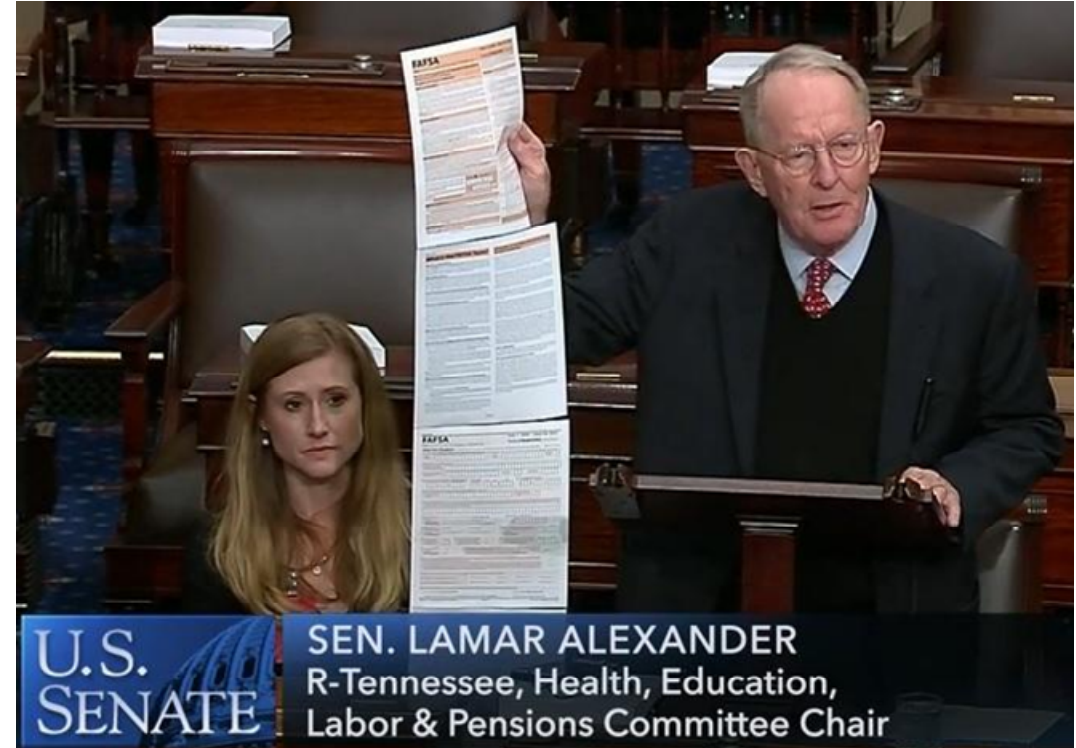
# Finance

# Finance:

## Free Application for Federal Student Aid (FAFSA) Completion

The Free Application for Federal Student Aid:

- ✓ Must be completed annually
- ✓ Determines eligibility for WI need-based aid programs
- ✓ Determines eligibility for most institutional aid



# Finance:

## Wisconsin's FAFSA Completion Rates

	Rank as of June 29, 2018	% of Class Completed FAFSA	'18-'19 Completers	12th Grade Enrollment	% of HS with No Data to Date
<b>UNITED STATES</b>		<b>57.4%</b>	<b>2,187,737</b>	<b>3,809,330</b>	<b>8.3%</b>
Louisiana	1	77.1%	37,841	49,088	3.8%
Tennessee	2	76.6%	56,016	73,081	7.4%
Washington, D.C.	3	71.4%	3,497	4,900	4.9%
<hr/>					
Wisconsin	34	54.0%	38,198	70,774	3.9%
Montana	35	53.9%	5,328	9,882	10.7%
Florida	36	53.4%	109,637	205,451	14.6%
Vermont	37	53.3%	3,723	6,985	8.3%

<https://formyourfuture.org/fafsa-tracker/>

# Finance:

## FAFSA Completion as a Graduation Requirement

State	Governing Policy	Implementation Authority	Parties Eligible to Submit Waiver	Effective Date
Louisiana	Chapter 9, Section 901 Louisiana Handbook for School Administrators	Louisiana Department of Education	Parent/Guardian State Superintendent	2017-2018 academic year
Texas	House Bill 3, Section 2.015	Texas Education Agency	Parent/Guardian School Counselor	2021-2022 academic year
Illinois	House Bill 2719	State Board of Education	Parent/Guardian School Principal	2020-2021 academic year

Louisiana's Initial Outcomes:

- ✓ Highest FAFSA completion rate in the country
- ✓ Record-high graduation rate
- ✓ Record-high number postsecondary education enrollees

# Finance:

## Non-Legislative/Regulatory Campaigns for FAFSA Completion

### Michigan's FAFSA Challenge

- Governor Whitmer called on every high school to increase their FAFSA completion rate
- Cited an estimated 25,000 students who left \$100 million in Pell dollars on the table (NerdWallet study)
- Introduced a public facing, school-level data tool to track progress/create competition

### Ohio's FAFSA Month

- Governor DeWine declared October FAFSA Completion Month in OH
- Runs in tandem with DeWine's "3 to Get Ready" campaign
  - Financial aid
  - College applications
  - College selection
- Culminates in a College Signing Day ceremony

# Finance:

## Wisconsin's Financial Aid Landscape

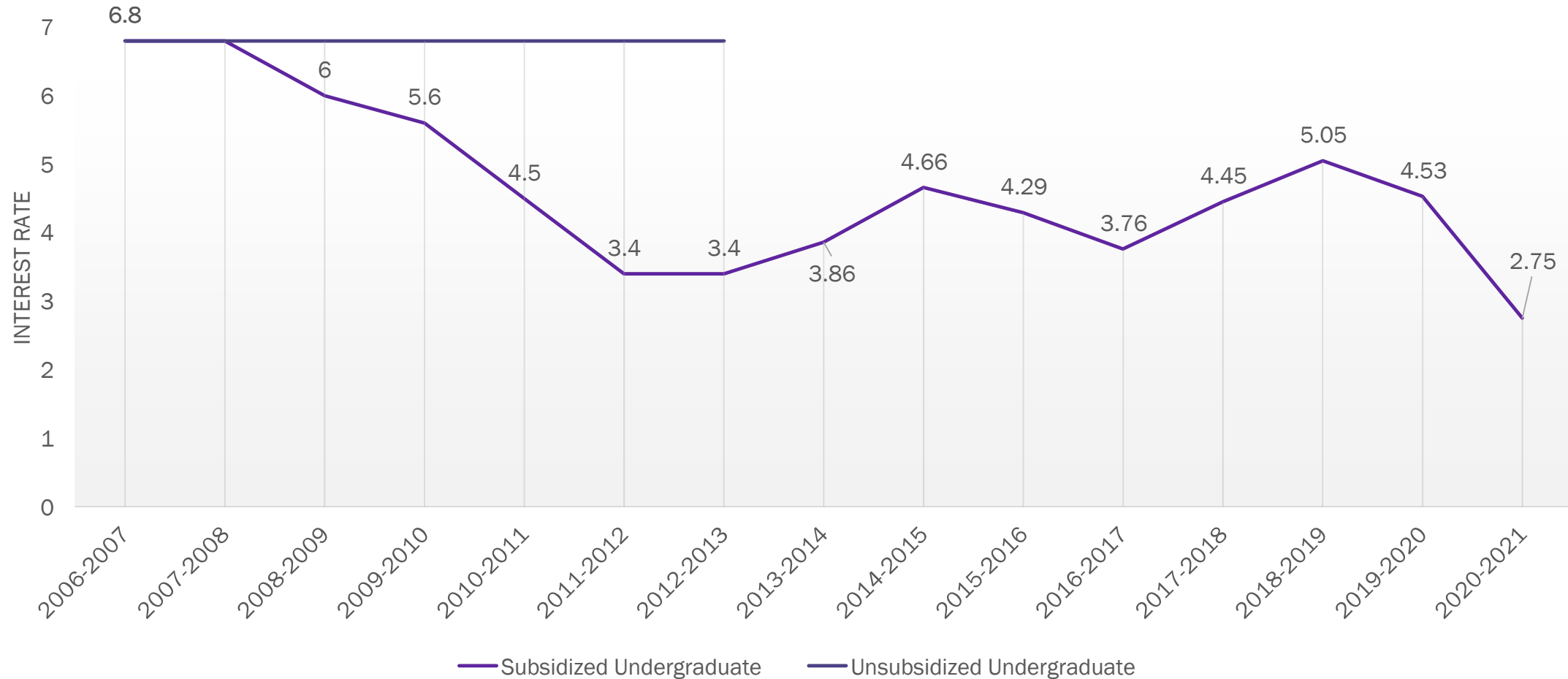
Program	Need?	Merit?	Expenditures	Recipients
Academic Excellence	No	Yes	2,911,427	2,690
Foundation Grant	Yes	No	2,158,910	1,942
Talent Incentive Program	Yes	No	3,826,717	3,020
Covenant Scholars	Yes	No	5,470,831	8,190
WI – Private Nonprofit	Yes	No	27,566,628	9,993
WI – Technical Colleges	Yes	No	19,469,805	23,619
WI – U of Wisconsin	Yes	No	60,234,977	29,622

Source: NASSGAP Survey, 2017-2018

# Refinancing

# Undergraduate Loan Interest Rates Over Time

Changes in Interest Rates for Undergraduate Loans



State	Eligible Loans	Funding	Servicer	Interest Rate	Debt : Income Credit Score	Income Requirement
Connecticut	\$5,000 - \$100,000	Program Funds	Outsourced	Fixed: 4.75 - 5.0% Variable: N/A	43% / 675	None
Maine	\$10,000 - \$240,000	Private*	Outsourced	Fixed: 4.5 - 9.0% Variable: 4.25 - 8.50%	40% / 680	\$24,000/year minimum
Minnesota	\$10,000 - \$70,000	Program Funds	Outsourced	Fixed: 4.25 - 6.75% Variable: 4.0 - 5.35%	45% without co-sign 40% with co-sign 700	None: 60-day continuous employment
Iowa	\$5,000 - \$200,000	Tax-exempt & taxable bonds	Iowa Student Loan	Fixed: 3.50 – 7.50% Variable: N/A	None 690	None
New Hampshire	\$1,000 - \$200,000	Taxable bonds	NH Higher Ed. Loan Authority	Fixed: 4.29 – 7.49% Variable: 4.34- 7.14%	43% 700	\$30,000/yr. min. \$50,000 for loans over \$100,000
New Jersey	\$5,000 minimum	Tax-exempt bonds	NJ Higher Ed. Student Assistance Authority	Fixed: 4.90 – 6.90% Variable: N/A	40% 670	\$40,000/year minimum

[https://www.wsipp.wa.gov/ReportFile/1691/Wsipp\\_Student-Loan-Bill-of-Rights-Student-Loan-Refinancing\\_Report.pdf](https://www.wsipp.wa.gov/ReportFile/1691/Wsipp_Student-Loan-Bill-of-Rights-Student-Loan-Refinancing_Report.pdf)

# Refinancing: Program Nexus Requirements

State	Nexus Requirement
Connecticut	Borrowers must: <ul style="list-style-type: none"><li>• be a Connecticut resident or;</li><li>• have attended college in-state.</li></ul>
Maine	Borrowers must: <ul style="list-style-type: none"><li>• be a Maine resident and;</li><li>• have graduated from an in-state college.</li></ul>
Minnesota	Borrowers must: <ul style="list-style-type: none"><li>• be a Minnesota resident.</li></ul>
Iowa	None
New Hampshire	None
New Jersey	Borrowers must: <ul style="list-style-type: none"><li>• be a New Jersey resident and;</li><li>• have been a New Jersey resident at the time the original loan was disbursed or;</li><li>• have attended college in-state</li></ul>

[https://www.wsipp.wa.gov/ReportFile/1691/Wsipp\\_Student-Loan-Bill-of-Rights-Student-Loan-Refinancing\\_Report.pdf](https://www.wsipp.wa.gov/ReportFile/1691/Wsipp_Student-Loan-Bill-of-Rights-Student-Loan-Refinancing_Report.pdf)

# Refinancing: Things to Consider

## Monthly Payment Projections by Household Income

Household Income	Current Monthly Payment	Refinanced Monthly Payment	Monthly Savings
Less than \$24,000	\$121.85	\$115.41	\$6.44
\$24,000 - \$41,000	\$161.88	\$156.59	\$5.30
\$41,000 - \$63,000	\$192.96	\$183.54	\$9.42
\$63,000 - \$105,000	\$265.04	\$258.04	\$7.00
More than \$105,000	\$414.02	\$404.22	\$10.20

<https://www.newamerica.org/education-policy/policy-papers/interest-of-few/>

# Loan Counseling

# Loan Counseling

- A 2014 Brookings Institution Study found that:
  - 47% of first-year college students with federal loans underestimate the amount they have borrowed by at least 20%
  - 14% of students with federal loans were unaware that they had borrowed at all
- Federal Reserve Board and NASFAA focus groups found that:
  - Department of Education tool is ineffective and overwhelming
  - Some practices to focus on “at risk” students can be effective
- U.S. House of Representatives passed enhanced loan counseling legislation in 2014, 2016, and 2018.

# Loan Counseling: Policy Options

- Enhanced loan counseling – Enacted in WI, 2015
  - Annual updates on student loans:
    - Current balance
    - Projected total loan amount
    - Interest rate accrual
- Financial Literacy Programming – Enacted in WI, 2017:
  - Free Application for Federal Student Aid, financial aid programs, education savings accounts

<http://docs.legis.wisconsin.gov/2015/related/acts/284>

<https://docs.legis.wisconsin.gov/2017/related/acts/94>

# Loan Counseling: Things to Consider

- Enhanced Counseling Practices:
  - What is the goal of increased information?
  - What information will be most helpful for borrowers?
  - What might be some unintended consequences?
- Financial Literacy Programs:
  - What other college-going subjects might be helpful?
  - Which subjects couple well with financial aid?

# State Spotlights

# State Spotlight:

## New York's "Get on Your Feet"

### Program Parameters

- Maximum of 24 payments
- 10% of adjusted gross income
- Eligible repayment plans:
  - IBR
  - PAYE
  - REPAYE

### Eligibility Requirements

- Income cap: \$50,000
- Bachelor's degree (nothing higher)
- Application within 2 years of completion
- Graduated from NYS high school & college
- 12 months of prior residency
- Employed in New York

# State Spotlight:

## Employer Tax Credit in Connecticut

### Interest

### Foundation of Employee Benefit Plans Survey

- According to the survey, 23 percent of companies are interested in assisting employees repaying student loans, 4 percent already do so, and another 2 percent are in the process of implementing this benefit.

### Legislation

### Senate Bill 72's Program Parameters:

- Effective in 2022, employers will receive a tax credit for half of the amount they contribute to employee student loan repayment. To be eligible, employees must have completed a bachelor's degree in the last five years, be a Connecticut resident, and have refinanced their student loan through the state.

### Results

### The Hartford

- Starting this year, about 17,000 employees at the insurance company will be eligible to receive a lifetime total of \$10,000 toward their student loan debt.

# Employer Tax Credit in COVID-19 Stimulus Package

- Title II, Subtitle B, Section 2206 of the CARES Act:
  - Amends the Internal Revenue Code
  - Maximum contributions of up to \$5,250/year can be made by employers
  - This loan assistance will not be subject to income or payroll tax

## Interest

### Foundation of Employee Benefit Plans Survey

- According to the survey, 23 percent of companies are interested in assisting employees repaying student loans, 4 percent already do so, and another 2 percent are in the process of implementing this benefit.

## Legislation

### Senate Bill 72's Program Parameters:

- Effective in 2022, employers will receive a tax credit for half of the amount they contribute to employee student loan repayment. To be eligible, employees must have completed a bachelor's degree in the last five years, be a Connecticut resident, and have refinanced their student loan through the state.

## Results

### The Hartford

- Starting this year, about 17,000 employees at the insurance company will be eligible to receive a lifetime total of \$10,000 toward their student loan debt.

# Kansas Rural Opportunity Zones: Eligibility Requirements

## Student Loan Repayment Assistance

- Proof of residency
- Associate's degree or higher
- County or employer sponsor
- \$3,000/year for 5 years or;
- 20% of balance for borrowers with less than \$15,000 in debt

## Income Tax Waiver

- Proof of residency
  - At least 5 years outside KS immediately beforehand
- County or employer sponsor
- Five year maximum
- Less than \$10K/year in KS earnings in previous 5 years

# State Spotlight:

## Maryland's Tax Benefits

### 2017: Tax Code Amended

- Offers tax credits to borrowers who:
  - Incurred at least \$20,000
  - Have at least a \$5,000 balance
- Priority:
  - Higher debt to income ratios;
  - In-state students;
  - Did not receive tax credit in prior year

### 2018: Executive Order, Implementation

- Executive order cites workforce shortages in stage agencies & declares priority for those fields
  - Personnel management
  - Transportation services
- \$9 million awarded to 9,494 residents
  - \$1,000 for in-state
  - \$883 for out-of-state

### 2019 Legislative Proposal

- Proposed interest deduction for full amount paid in a fiscal year
- Income cap:
  - \$91,000 income cap for full write-off
  - Sliding scale for income between \$91K-\$100K

# State Council of Higher Education for Virginia (SCHEV)

## Data Collection Practices

Ability to answer critical questions such as:

- What percent of Virginia graduates have student debt?
  - At 2-year institutions? At 4-year institutions?
- How many students left an institution with debt but no degree?
- What percent of Pell Grant recipients also borrowed, and how much?
- At which institutions do students borrow the most?

### **FA19: Trends in Annual Borrowing by Student Level**

---

Total annual borrowing, since 1992-93 by loan type and student level.

Please select the desired institution:

Please select a student level:

# Issues to Consider Moving Forward

- Which borrowers need the most help?
- Which program elements work best for Wisconsin?
- Keep an eye toward Oct 1
- Please reach out!

**Questions?**