Testimony of

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Members of the Committee, thank you for inviting us to testify at this oversight hearing on the issue of student debt in Iowa. As you know, the available data indicates that Iowa college students carry more debt than most other students across the nation, and I commend you for recognizing this as an important issue and taking the time to identify causes and potential solutions.

I am the president of the Institute for College Access & Success, Inc., a nonpartisan, not-for-profit policy research organization supported by individual donors and by foundations such as The Pew Charitable Trusts, the William and Flora Hewlett Foundation, and the BayTree Fund. With me here today is Matthew Reed, our policy analyst and author of our most recent report on the average debt of college graduates in all 50 states.

The national and historical context

I first became involved in student loan issues 17 years ago while on the staff of U.S. Senator Paul Simon, from the neighboring state of Illinois. Since then there has been a sea change in how Americans pay for college. As recently as 1993, fewer than half of college graduates had student loans when they finished school; a decade later two-thirds finished school with debt. Not only are more students borrowing, but they are borrowing more. In the past decade we have seen average debt rise more than 50 percent *after* accounting for inflation.

We should not ignore the positive aspects of student borrowing: at their best, loans are providing many people with the opportunity to go to college, get a degree, and contribute to our economy and society. But student loans' growing dominance of our higher education finance system also brings real risks. We launched our Project on Student Debt to encourage the public and policy makers to take a close look at the trends and to consider ways to ameliorate the potential hazards. The concerns about rising student debt include:

- Some families, especially those with low-income and first-generation students, are reluctant to take on debt for schooling. They have seen how debts have destroyed friends, family and neighbors, and the idea of taking out a loan to finance a dream can, understandably, seem reckless.

- Debt can distort career choices, discouraging graduates from becoming teachers or social workers, or taking the risk of starting a business as an entrepreneur.
- Students with debt are less likely to consider graduate school. They already feel burdened with debt, and the idea of taking on more is hard to swallow. (They may think they'll work for a few years to pay off those loans and then go back to school, but usually they get on a different track and never go back.)
- If you are worried about college graduates leaving Iowa to find higher-paying jobs elsewhere, student loan payments may make that problem worse.
- And of course debt can affect family financial security: the ability to get married, buy a home, save for retirement, and to save for you own kids' college education.

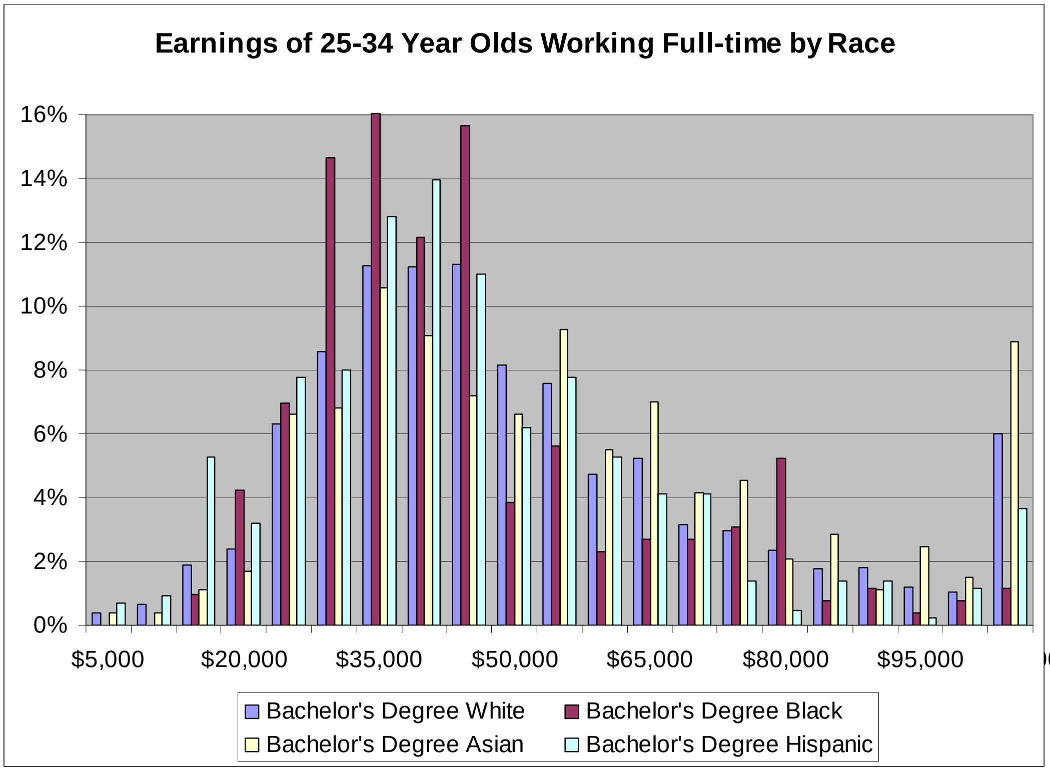
When we justify the current system of financing higher education, we tend to focus on the financial benefits to the individual. You have probably heard that someone with a bachelor's degree "earns a million dollars more" over a lifetime than someone with only a high school diploma. "It's an investment!" we often say. "It's better than borrowing $20,000 for a car."

However, there is a big difference between borrowing for a car and borrowing for college. If you have an auto loan, you actually have a car, and the transportation that you needed. If you have a student loan, even assuming you got your degree, there may or may not be jobs in the field for which you trained, you may or may not get one of those jobs, and you may or may not earn the salary that you had hoped for when you took out those loans.

Historically, investing in higher education has brought good returns *on average*. But the same historical case is often made for investing in the stock market—and we certainly don't encourage people to borrow money to invest in stocks. Recognizing the risks of counting on future income from a college education, the economist Milton Friedman warned us 50 years ago about the hazards of using traditional loans to finance schooling, because, as he put it, "[t]he average expected return may be high, but there is wide variation about the average."[1]

The histogram below shows that wide variation. It represents the actual distribution of annual incomes for college graduates (four-year degrees) working full-time, age 25-34:[2]

[1] Milton Friedman, "The Role of Government in Education," in Robert A. Solo, ed., *Economics and the Public Interest*, Rutgers University Press, 1955.
[2] U.S. Census Bureau, Current Population Survey, 2005 Supplement. Computations by the Project on Student Debt.



How much borrowing is reasonable to finance college? The right answer depends on the borrower's earnings after college. However, exactly where a graduate may land on the above chart is only somewhat predictable, and never guaranteed. Predicting the future always involves risk, and if we want people to borrow for college it makes sense to protect them from excessive risk. In a report we cosponsored with the College Board, two economists, Sandy Baum and Saul Schwartz, set out to determine how much is "too much" student debt.[3] They produced a sliding scale of "manageable payments" based on the borrower's income and family size. At the lowest income levels, a borrower is not in a position to make anything more than a token payment. As her earnings improve, she can begin to set aside a portion of her additional income for payments on student loans. (This

[3] Sandy Baum and Saul Schwartz, *How Much Debt Is Too Much? Defining Benchmarks for Manageable Student Debt*, The College Board and the Project on Student Debt, 2006.

approach is the basis of a new Income Based Repayment program for federal student loans.)[4]

If you take that sliding scale concept and apply it to the distribution of actual incomes that college graduates have then at any given level of debt there are going to be *some* borrowers who face unmanageable payments. Assuming a 6.8% interest rate (the current rate on federal Stafford loans) and a loan term of 10 years:

- with a debt of only $10,000, about 10% of the college graduates working full-time would face payments that exceed the Baum-Schwartz manageable payment threshold;
- at $20,000 of debt, 18% would face unmanageable payments;
- At $30,000, the proportion rises to one in three borrowers;
- And with $40,000 in loans, more than half of college graduates with full-time jobs would have unmanageable payments.[5]

The proportions change if you make different assumptions about the repayment period or the interest rate, but the point remains: rising debts increase the number of college graduates who will find it difficult or impossible to make their loan payments.

So far, the incomes I have been talking about are for people who *got their college degree*. The situation is far worse for the many students who do not reach the finish line. In addition to having lower incomes, one study shows that student loan borrowers who did not complete their degree had an unemployment rate twice as high

[4] Above 150% of the poverty line for the borrower's family size, Baum and Schwartz recommended that borrowers never be expected to pay at more than a 20% marginal rate. The new federal Income Based Repayment program sets the maximum at 15%.
[5] Computations by the Project on Student Debt, based on earnings distributions for full-time, full-year workers with Bachelor's degrees only, U.S. Census Bureau, Current Population Survey, 2005 Supplement.

as graduates, and a loan default rate 10 times higher.[6] As the executive director of the Iowa Student Loan Liquidity Corporation said a few years ago, "For incoming students who end up dropping out, debt is a real problem. Not only are their academic dreams shattered, but they are left with a debt that is hard to repay by working at a non-college-graduate job."[7] To help students succeed in college, the best general advice is to enroll full-time instead of part-time, and limit work hours so that you can focus on your studies. Compared to the college dropouts who had not borrowed, the borrowers who did not complete were more likely to be doing exactly that. Loans enabled them to follow the recommended plan, but for some reason—which could be anything from academic difficulties to a family health crisis—it didn't work out. Student loan programs need to be designed so that they do not discourage people from giving higher education the old college try by doubly punishing what is already a painful and costly failure.

The design of federal loans vs. private loans

The best way to avoid the punitive aspect of student loans is to fund higher education with grants instead, especially for those from lower income families. However, given limited resources, I would not advise holding out for that ideal solution. That is why our Project on Student Debt has focused a large part of its effort over the past two years to ensuring that there is an effective and secure safety net under federal student loans. That way, we can recommend federal loans even to low-income students, as part of an effort to

[6] Borrowers Who Drop Out: A Neglected Aspect of the College Student Loan Trend, Lawrence Gladieux and Laura Perna, National Center for Public Policy and Higher Education, May 2005
[7] Steven McCullough, letter to the editor (in favor of providing more grant rather than loan aid in the first two years of college), *Chronicle of Higher Education*, March 16, 2001.

encourage them to increase their likelihood of success by attending full time, limiting work hours, and focusing on their studies at a college that is a good fit for them.

The relatively low, fixed interest rate tends to be the main attribute that we focus on when we talk about Stafford loans. But they have a number of equally important – or really, more important – benefits as well:

- Cancellation in case of death or severe disability.
- Deferral for up to three years of unemployment – with interest paid by the government on the majority of the loans (subsidized Stafford and Perkins).
- Deferral in cases of economic hardship.
- Income Based Repayment: a new sliding-scale repayment system we fought for, ensuring that most borrowers will not have to set aside more than 10 percent of their annual earnings for student loan payments—if their borrowing was limited to *federal* loans. This new program also assures that borrowers will not be paying for their student loan out of their Social Security checks, because income-based payments end after 25 years even if there is still a balance remaining. (The payments end after only 10 years for those in public service jobs). And if interest accrues during any of the repayment period, it does not compound.[8]

In contrast, private student loans:

- almost always have variable interest rates, generally without any cap;
- rarely include death or disability cancellation provisions;

[8] IBR becomes available in July 2009 for all federal student loan borrowers, past, present and future. The program is modeled on the Baum-Schwartz approach (see footnote 4). Payments could exceed 10% only for those with high income and high debt, with a maximum of 15%..

- may offer hardship and unemployment deferrals, but interest accrues and compounds, there is usually a very strict time limit, and if the loan grows and becomes unmanageable there is no end point to repayment.

To make things even worse, student loans – both public and private -- receive the harshest treatment in bankruptcy, in the same category as unpaid taxes and unpaid child support. You'll often hear that it is better for a student to take out a private loan than to use a credit card. But that is not *necessarily* the case. The interest rate may not be dramatically different, and at least credit card debt is dischargeable in bankruptcy.

The best private student loan is no private student loan

Nationally, only about one in every 20 undergraduate students took out a private student loan in 2003-4.[9] But available loan volume data (which include both graduate and undergraduate borrowing) suggest rapid growth: 12 percent last year, and an average of 27 percent in each of the prior five years.[10] New York Attorney General Andrew Cuomo has referred to the private loan marketplace as a "wild west" of incomplete information, little or no regulation, and aggressive or even deceptive sales tactics. Often, the policy wonk's first reaction to this situation is to say that we need a price comparison system. "Let's figure out how to make sure that students are getting the 'best rate' possible on their private loans." That is **not** the right place to start. Showing the path to the "best" private student loan is like recommending the "safest" cigarette. It accepts the premise that

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[9] That is the proportion of all undergraduates borrowing in that year regardless of type of college or year in school. Calculation by the Project on Student Debt from the National Center for Education Statistics (NCES), National Postsecondary Student Aid Study (NPSAS), 2004 undergraduates, Data Analysis System (DAS).
[10] The College Board, *Trends in Student Aid* 2006 and 2007. www.collegeboard.org/trends.

smoking is okay and can be healthy. Instead, it is critically important to try to get them to *stop smoking*.

Similarly, we need to put up a "stop sign" of sorts and create a giant pause for students who are entering private loan territory. And we need an even bigger stop sign for college officials who might otherwise recommend that a student take out a private loan. Too often students think, "I'm already taking out a Sallie Mae Stafford Loan, so what's the big deal if I also have a Sallie Mae Signature Loan?" The huge difference in terms and risks is easily masked by this kind of branding and by a school's apparent endorsement. Responsible financial aid advisors will help them identify better options. They ask:

- Has there been a change in the student's family financial situation that isn't reflected in the ability-to-pay formulas?
- Is the student's budget appropriate? Are there ways to reduce expenses?
- Are the parents helping as much as they are able?
- Are there grants and scholarships the student can apply for?
- And if they must: Is this school really worth it for this student?

Schools can reduce risky borrowing if they are notified and then take a proactive role. Barnard College learned that some students were taking out student loans because the lenders sought verification of the students' enrollment status. The college decided to require a counseling session before certifying the loans. After explaining the loan terms and other options, the number of private loans that students actually took out plummeted by 73 percent.[11] Schools can only take these steps, however, if they know students are

[11] Scott Jaschik, "Bucking the Tide on Private Loans," *Inside Higher Ed*, July 16, 2007. http://insidehighered.com/news/2007/07/16/barnard

borrowing. Increasingly, lenders are trying to avoid the college through direct-to-consumer channels (for example, you have perhaps heard radio and television commercials for Astrive or My Rich Uncle private loans). We support federal legislation requiring notification of schools and inclusion of private loan data in the federal student loan database.

Student debt in Iowa

I assume you invited me here because our state-by-state debt data caught your attention. Some background: When we launched the Project on Student Debt, there was no easy way to compare campus-by-campus debt levels of graduating seniors. So last year we licensed the survey data from one of the college guide publishers and put the numbers up on our web site. From that, we produced enrollment-weighted state averages based on those campus-reported figures.

In our first state report, which looked at the debt of students graduating in the class of 2005, Iowa had the second highest debt level in the country (New Hampshire was highest). I am sorry to report that looking at the class of 2006 and analyzing the data in essentially the same way as for the prior year, Iowa was still second only to New Hampshire. By this analysis, 74 percent of Iowa's graduating seniors had student loan debt averaging $23,680, compared to 58 percent of seniors nationally carrying average debt of $18,918. The ranking and these figures are different from those in our most recent report because that analysis focused on the *change* between 2005 and 2006, requiring us to use only those campuses that had provided valid and distinct numbers in *both* years. Our data source had repeated Iowa State University's 2005 figure in 2006 rather than entering the new figure; in order to be consistent across the data set, we excluded the data for the purposes of the year-to-year comparison. (See the appendix for a more detailed explanation of the data issues).

These data on graduates with debt are not without their limitations. Many colleges do not report the information, and some of the entries are questionable. If the data were more complete and higher quality, would Iowa still be a high-debt state? It is useful to look at other indicators of student borrowing to see if they point to the same conclusion about Iowa. Unfortunately they all show that Iowa belongs, without a doubt, among the highest debt states. In addition to reviewing the figures campuses provide to college guide publishers, we analyzed data that schools provide to the U.S. Department of Education about financial aid for entering freshmen; actual federal loan data provided by loan companies and federal contractors to the Department of Education; and available private loan information.

Borrowing by entering freshmen. Colleges provide the U.S. Department of Education with data on the proportion of entering full-time freshmen whose financial aid includes loans, and the amount of those loans.[12]

- At Iowa's public universities, 27 percent more freshmen have loans as part of their financial aid compared to the national average, and the loan amount is 44 percent higher.[13]

[12] Calculated from data available from the U.S. Department of Education, Integrated Postsecondary Education Data System (IPEDS), 2004-5. State and sector averages are weighted by the number of first-time freshmen reported by each campus.
[13] Nationally, 44 percent of these freshmen have loans averaging $3,998. In Iowa, 56 percent have loans averaging $5,765.

- At private four-year colleges, Iowa's rate of borrowing by freshmen is 32 percent higher than the national average and the amount borrowed is 12 percent higher.[14]
- Perhaps most striking are the figures for Iowa's community colleges: nearly *three times* as many full-time freshmen have loans as the national average, and the amount they borrow is 19 percent higher.[15]

Federal Stafford loan data. Lenders and schools report to the Department of Education information about the actual federal subsidized and unsubsidized Stafford loans they disburse. Based on those data, we estimate that the rate of federal borrowing in Iowa is 26 percent higher than the national rate in the public universities, 24 percent higher in the private colleges, and nearly triple the rate at the community colleges.[16] The rate of borrowing each year is important because at a school with a stable student population and a high proportion of students taking out loans, there are more repeat borrowers (year after year), leading to higher overall debt at graduation.

Private loan data. As I noted earlier, nationally, about five percent of all undergraduate students (at all types of institutions) took out private (nonfederal, including state) loans in 2003-4. There is no comparable source of data on all private student loan borrowing in Iowa specifically. While we have questions about the quality of the

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[14] Nationally 60 percent borrow an average of $4,990, while in Iowa 79 percent borrow an average of $5,613.

[15] Nationally 18 percent borrow an average of $2,734, while in Iowa 50 percent take out loans averaging $3,262.

[16] The raw data, for 2004-5, represent the number of *loans* of each type by campus. Some students take out just a subsidized Stafford, some take only an unsubsidized Stafford, and some take both. Nationally, the overlap is such that about one-third of unsubsidized borrowers do not also have a subsidized loan. Based on that average, we estimate the number of federal borrowers in each sector by adding one-third of the unsubsidized loans to the number of subsidized loans. Because of loan limits, the average size of the loans of each type are similar (but the amount per borrower may or may not be similar because some borrowers have both types).

Partnership loan data that is currently available, we can use what we do have to estimate borrowing rates and levels. Those numbers indicate that eight percent of Iowa students (again, all sectors) had Partnership loans in 2005-6, 60 percent more than the national rate for *all* private loans. The average Partnership loan amount was more than $7,000, compared to $5,900 for private loans nationally.[17]

Every data source indicates that in the public and private non-profit higher education sectors, Iowans are borrowing more money more often for higher education. Iowa is, indeed, a high student debt state.

Why are Iowa students borrowing so much for college?

As state legislators, you are appropriately most interested in the question of *why*, so that you can figure out what, if anything, you can do about high student debt in Iowa. ISLLC issued a report last year that blamed high debts on rising college costs, low family incomes, inadequate grant aid, and high college participation.[18] Company leaders explicitly rejected the idea that the high debt levels might be related to the ways that its Partnership loans are marketed.[19] I will review these assertions, starting with the explanations that are *not* related to the marketing of the Partnership loans.

[17] The Partnership loan data are from the Iowa College Student Aid Commission, which surveyed campuses but does not have access to actual loan records. Based on our discussions with campus officials, it is possible a small number of loans reported are parent rather than student loans, and/or that some students received more than one loan during the year. Requiring ISLLC to provide these data would improve the accuracy and serve as a check on school-provided information. National private loan data from NPSAS.
[18] Iowa Student Loan Liquidity Corporation, "Research Pertaining to Undergraduate Student and Parent Student Loan Indebtedness Levels," May 2007. http://www.studentloan.org/erc.
[19] Jennifer Jacobs, "Colleges got $1.5 million for loan work," *Des Moines Sunday Register*, May 6, 2007.

Is *tuition* high in Iowa?

At the community colleges, yes. Otherwise, no. Tuition and fees at Iowa's four-year colleges and universities, public and private, are very close to the national average and lower than the Midwest average for public universities. Tuition and fees at Iowa's community colleges are high relative to the rest of the nation (about 50 percent higher than the national average), which could contribute to the higher levels of borrowing at those colleges.

	Tuition 2006-7
National Average (Public 4-year)	$5,836
Midwest Average (Public 4-year)	$7,075
Iowa State University	$5,860
University of Iowa	$6,135
University of Northern Iowa	$6,112

	Tuition 2007-8
National Average (Private 4-year)	$23,712
Midwest Average (Private 4-year)	$22,171
Iowa Private Colleges (4-year)	$22,231

	Tuition 2007-8
National Average (Public 2-year)	$2,272
Midwest Average (Public 2-year)	$2,831
Iowa Community Colleges	$3,365

(About 40 percent of undergraduate students in Iowa are at the community colleges, similar to the national average.)[20]

Are *total college costs* high at Iowa's colleges and universities?

No (with one exception)**.** The report last May from ISLLC showed that total cost of attendance or COA – tuition, room and board, books, and other expenses as estimated by college financial aid officials – rose faster in Iowa between 1994 and 2004 than the

[20] The College Board, *Trends in College Pricing* 2006 and 2007. University tuition and fee charges are from the U.S. Department of Education, Integrated Postsecondary Education Data System (IPEDS).

national average.[21] That is interesting, but it does not actually tell us whether Iowa's COA levels are high or low relative to other states. The figures below indicate that total estimated college costs in Iowa are about average.[22]

	Cost of Attendance 2006-7	
	On Campus	Off Campus
National Average (Public 4-year)	$16,357	$16,967
Midwest Average (Public 4-year)	$16,093	n/a
Iowa State University	$16,350	$19,563
University of Iowa	$17,147	$17,147
University of Northern Iowa	$16,004	$17,566

Total estimated college costs are about average for students living on campus. The one anomaly is that students living *off*-campus at Iowa State University are estimated to have higher costs.

Do Iowa families have relatively low incomes?

No. According to the Census Bureau, the median income for a family of four in Iowa is $66,470. That is slightly more than the national median of $66,111.[23]

Are grants and scholarships harder to come by in Iowa?

Yes, somewhat. There are three major sources of grant aid (including "scholarships" and tuition discounts): state government programs, federal programs (mostly Pell grants), and funds generated by the colleges themselves (from tuition, endowments, or in the case of public institutions the operating funds provided by state and

[21] Iowa Student Loan Liquidity Corporation, "Research Pertaining to Undergraduate Student and Parent Student Loan Indebtedness Levels," May 2007. http://www.studentloan.org/erc.
[22] The College Board, *Trends in College Pricing* 2006. The Midwest COA (Cost of Attendance) is our combination of the College Board's Midwest figure for tuition, fees, room and board and the national average of transportation and other expenses. The *Trends* reports do not include regional averages for off-campus non-tuition costs. University COA levels are as reported to the U.S. Department of Education, Integrated Postsecondary Education Data System (IPEDS).
[23] U.S. Department of Health and Human Services, LIHEAP guidelines for fiscal year 2007, http://www.acf.hhs.gov/programs/liheap/guidance/information_memoranda/im06-05.html, accessed October 24, 2007.

local governments). Overall, it appears that grant aid is low at Iowa's public universities and community colleges.

Nationally, state governments provide per capita grant aid of roughly $1,000 per full-time entering freshman student (that average is for all entering freshmen, not just those who get the aid). The national average amount is similar for both public and private four-year colleges. Iowa is much different, however: private colleges receive $1,286 per capita while the public universities receive only $115. The public universities appear to partially make up for this lack of state aid by providing more institutional aid. The data for entering freshmen show a $1,655 per capita amount of aid coming directly from the universities, compared to $1,083 for public four-year institutions nationally. These numbers should be interpreted with caution, however. We are not able to tell whether those getting state and institutional aid are needy or not, or whether they are paying in-state or out-of-state tuition. (If they are paying out-of-state tuition, the "discount" may not actually represent discretionary funds.)

Like most community colleges across the country, Iowa's two-year public institutions have very little institutional grant aid ($193 per capita first-time freshmen compared to $132 nationally). State aid is low, too, less than $100 per capita compared to nearly $400 nationally. Given the colleges' relatively high tuition, this paltry aid budget leaves a big gap.

Iowa private colleges provide about $1,500 more institutional aid per capita than private colleges nationally, at $8,385 and $6,901, respectively (again, these are averages are for all entering freshmen, not just those who get the aid). While 95 percent of the entering freshmen at Iowa private colleges receive at least some institutional aid, we do not know how the amounts differ across the student population, and whether the aid is distributed in a way that would tend to reduce debt levels. The institutional aid may also interact with the state-funded Iowa Tuition Grant in ways that could either undermine or improve the state grant's effectiveness in helping to reduce the need to borrow.[24]

Federal grant aid per capita (entering freshmen) is primarily a function of the proportion of Pell grant recipients at the institutions. Iowa community colleges and private colleges each receive about $1,000 per capita, similar to the national average for their sectors. Public universities in Iowa receive about $400 per capita less than public universities nationally. This is likely due to low numbers of Pell grant recipients at those institutions; that, in turn, could either mean that low-income Iowans are under-represented or that the out-of-state student population on campus is dominated by higher-income students, or both.[25]

Does Iowa have a relatively high college-going rate?

Yes. An estimated 61.5 percent of Iowa's graduating seniors immediately go on to college, compared to the national average of 55.7 percent. Iowa ranks 11th in the country on this measure.[26] This means that it takes more money to subsidize state universities and state grant programs, all other things being equal. However, it is not clear what the effect would be on student debt levels.

[24] Calculations of data derived from IPEDS 2004-5. Nationally 70 percent of entering freshmen receive discounts averaging $9,364. In Iowa, 95 percent of entering freshmen get discounts averaging $8,800.
[25] Calculations of data derived from IPEDS 2004-5.
[26] "College-Going Rates of High School Graduates - Directly from High School, 2004" NCHEMS Information Center for Higher Education Policymaking and Analysis, www.higheredinfo.org.

The role of Partnership loans -- marketing or necessity?

The Partnership loans offered by the Iowa Student Loan Liquidity Corporation are, without a doubt, a contributing factor to Iowa's high level of student debt. While there are volumes of detailed data books on federal and state grant and loan programs, Iowa Student Loan publishes very little information about its products and its customers. To fill in the blanks and assist your effort, I will compare what I see in Iowa to what has happened elsewhere, and I can suggest theories about what might be going on given the incentives and dynamics that we know about.

Schools value coverage more than price. Private lenders seeking to become a favorite of a college financial aid office have a choice: they can either promise to serve a large proportion of the students who come to them for loans, or they can offer the lowest prices. Without an outside subsidy (as in the federal loan program), it is difficult to do both. Schools have traditionally favored wide coverage, because they want to minimize the number of students and parents who are denied a loan because of weak or nonexistent credit records.

The Partnership loan program is clearly designed to provide colleges with the wide coverage that they prefer. Fixed and variable rates are available for creditworthy borrowers. Customers without a creditworthy cosigner can also get a loan, albeit at a higher variable interest rate. The variable rates, currently between eight and ten percent, are capped at 21 percent, a welcome feature not commonly seen in private student loans.

The company strongly implies that its loans are all subsidized to some degree from an outside source: "the Partnership Loan offers low interest rates and credit terms

not available from any other source. . . Iowa Student Loan is able to offer these terms by **leveraging the resources generated by its other programs**."[27]

However, the rates are not low enough for *everyone* to be getting a rate lower than they could get elsewhere. A borrower with a healthy credit rating, for example, would qualify for a variable-rate Partnership loan with a current rate of 8.31 percent. Sallie Mae's private loan product, Signature, has current rates that run as low as 6.45 percent depending on the borrower's credit score. A search for private loans on SimpleTuition.com yielded several companies with as-low-as rates between seven and eight percent.

Rather than offering everyone a lower rate than they could get elsewhere, the Partnership loan program overall appears to have some level of internal cross-subsidy. In other words, the borrowers with good credit ratings, particularly those choosing the variable rate loans, are probably paying more than they could have paid if they had shopped around. Their somewhat higher rates help to subsidize borrowers with no credit histories whose rates are possibly not as high as they would be if they used other lenders. Because ISLLC makes available so little data about its programs, it is difficult to tell how much subsidy might be flowing in various directions among borrower types.

The outside subsidy, if there is any applied to the Partnership loan product, would come from the value of the tax-exempt bonds allocated to ISLLC Student Loan by the state and/or from earnings from the company's federal student loan portfolio. It is instructive to compare ISLLC's program to programs supported by tax-exempt bonds in three other states.[28]

[27] Iowa Student Loan Liquidity Corporation, 2005 Biennial Report. Emphasis added.
[28] In a quick review of states, these were the only two that had fixed-rate private loan offerings. The APR incorporates fees with the interest rate assuming a 10 year repayment period. Details about Michigan's

State	Program	APR
New Jersey	NJCLASS	6.85% fixed
Michigan	MI-LOAN	7.76% fixed
Illinois	Capstone (pilot)	8.00% fixed
Iowa	Partnership	8.63% fixed

Illinois has taken an interesting approach with its new pilot private loan program. It is available to help college seniors to finish their degrees (and to discourage them from leaving the state). Its 8 percent fixed interest rate is reduced to 7 percent if the senior gets a job in Illinois, and to 6 percent if he faces low post-college income. Further rate reductions are available for borrowers who face even lower incomes.

Image promotes exclusivity. In addition to being promoted as the best deal in Iowa, Partnership loans have the look and feel of something special, like a federal subsidized Stafford loan or Perkins loans. While they are not government-backed, the name *sounds* like a state program, and the sponsor is a nonprofit organization created by the state. Combined with their broad coverage, it is understandable that a college financial aid office would exclusively recommend Partnership loans.

Showing only one loan may cause students to think less about the nature of the product they are getting, because there is never a question of what the differences are between various loan options. Instead, the only thing they have to do is sign on the dotted line. For some, that shopping process could well have caused them to reconsider the idea of taking out a private loan at all. A significant pause helps to separate those who really need a loan from those who might be borrowing because it's easy and available.

MI-LOAN program can be found at http://www.michigan.gov/mistudentaid/. Information about New Jersey's NJCLASS loan is at http://www.njhesaa.org/. Details on the Illinois pilot are at http://www.collegezone.com/studentzone/416_10231.htm. Michigan also has a variable-rate loan product that is priced at least half a percentage point lower than Iowa's program for credit-worthy borrowers. (With a 5% fee, ISLLC charges 3-month LIBOR plus 2.20%. With a lower fee of 3.5%, Michigan charges LIBOR plus 1.5%.)

Loans versus grants. In a testimonial included in a private-loan company's promotional materials aimed at college officials, the financial aid director from Oral Roberts University declared that the college-branded loans (which have a trust-inducing effect similar to the implied state sponsorship of Partnership loans) is "reducing our tuition discount rate significantly." In other words, the special feel of the loan made it possible for the school to cut grant aid, ask the student to pay that much more with private loans, and still get the student to enroll.[29] Perhaps it is not a coincidence that average student debt levels for graduates of Oral Roberts University have risen quickly and are now among the highest in the country at $32,978.

Traditionally, much of the institutional grant aid provided by colleges has been need-based, combining with federal, state and private aid to ensure that low- and middle-income students are not forced to work too much or borrow more than a particular amount given their family financial situation. In the best cases, these caps on the work-loan burden are made public by the universities to demonstrate their commitment to need-based aid. (We are encouraging more to do so by listing them at www.projectonstudentdebt.org/pledges.)

In recent years some colleges and universities, both public and private, have shifted their institutional aid to entice targeted students, such as those with high ACT scores, rather than to assist the students with financial need.[30] By replacing an $8,000 need-based grant with an $8,000 loan to a working class applicant, the college can then offer a

[29] Promotional materials for First Marblehead GATE loans. The company encourages schools to brand the loan with the college name or logo and make it a part of the financial aid package. "You can institutionally brand the GATE Education Loan Program and make it a fully integrated part of your complete aid package."
[30] For one discussion of the "enrollment management" industry, see Matthew Quirk, "The Best Class Money Can Buy," *The Atlantic Monthly*, November 2005.

$4,000 "presidential scholarship" to a whiz kid and still improve its bottom line by $4,000 (while possibly improving its "yield," the proportion of admitted students who decide to enroll there). The whiz kid – who didn't even apply for need-based aid – gets a great deal, and the student with limited financial resources has a big debt but still gets to go to his school of choice. The available data do not tell us whether this is happening at Iowa colleges; monitoring schools' debt levels by family income background can help to protect against it.

Students versus their parents.

The impression that Partnership loans are low-rate means that colleges are going to feel more comfortable about including them in a package labeled "financial aid." Students are more likely to go along with the idea of taking out the loan, too—certainly more willing than if the loan was described as an "optional private loan from Citibank with a variable interest rate of up to 21 percent." Including a private student loan in the financial aid package can also reduce the apparent cost *to the parent*, a tactic that the growing "enrollment management" field has found can make students and parents more likely to accept a particular school's offer. Consider two schools with the same overall cost of attendance of $16,000 (tuition, room and board, books and other expenses) but different approaches to packaging financial aid.

Standard Package	***Strategic Package***
$3,000 Institutional Grant	$3,000 Institutional Grant
$3,500 Stafford Loan	$3,500 Stafford Loan
$4,000 Work-Study	$3,000 Partnership Loan
$4,500 Parental Contribution*	$4,000 Work-Study
*Federal parent loans are available	**$1,500 Parental Contribution**

In the standard approach, the parents are reminded of the expectation that they will play a significant role in supporting their children in college, based on their financial resources (including their ability to borrow). The "strategic" approach suggests a private loan for the student, greatly reducing what the parent is asked to pay.

Are parents in Iowa choosing more debt for their kids? It is difficult to know. However, parent borrowing through federal parent PLUS loans is generally low at Iowa's private colleges: seven percent as compared to 10 percent nationally. Among the public institutions, officials at Iowa State University tell us that for several years their financial aid award letters suggested Partnership loans for student applicants, and that this practice ended after 2003-4. The University of Iowa tells us their awards did not suggest private loans at all. Interestingly, the rate of parent PLUS borrowing at Iowa State University is half the rate at the University of Iowa, lending support to the idea that the Partnership Loans at Iowa State University have replaced some parental support.[31] However, PLUS loan rates at Iowa State University are about the same as the national average at four-year institutions, so looking at the situation through a national lens it is University of Iowa's rates of parent borrowing that are high, not Iowa State University's that are low. Further, University of Northern Iowa is relatively high on both measures.

	Proportion of students with…	
	Partnership Loans	**PLUS Parent Loans**
Iowa State University	22%	6%
University of Iowa	9%	12%
University of Northern Iowa	14%	16%

[31] These data are not perfectly matched. The PLUS loan data (provided to us by the U.S. Department of Education) are for 2004-5 and the Partnership Loan data (from ICSAC) are 2005-6. While Iowa State University had reportedly changed its packaging practices by 2004-5, continuing students would likely continue to use the aid types they had been using previously.

Conclusion and Recommendations

Why does Iowa have high student debt? Based on the data we have reviewed, our leading theory is that the high debts are related to:

- lower-income students enrolling more heavily at community colleges, where there is inadequate grant aid and tuition charges are high compared to the national average;
- students starting at or transferring to the public universities where they also face somewhat low levels of grant aid; and,
- easy access to deceptively tame private loans, which sometimes address true need and sometimes lead to more students borrowing than really need to.

There could of course also be any number of Iowa-specific contributing factors that do not show up in the data sources that we reviewed.

Increasing need-based grant aid is likely one of the most constructive steps you could take to reduce the need for students to borrow. If a $1,000 increase for students with substantial unmet need reduced their borrowing by the same amount each year, that could reduce Iowa's debt levels to close to the national average. As part of increasing aid overall, we would recommend working with campuses to ensure that state and institutional aid strategies are both aimed at keeping the work-loan burden down.

To ensure that students know when they are entering private loan territory, Partnership or other private loans should never be "packaged" as part of a financial aid award. Students who are considering private loans should be counseled regarding other options they should consider first.

If the state is going to continue to use its tax-exempt bond authority for a private loan program, consideration should be given to an approach that focuses the subsidy on targeted populations or situations, like low-income housing programs do.

To monitor the debt situation, seek more information from the colleges regarding past, present and future graduating classes. To analyze the situation, it is important to know that the ranges of borrowing are (rather than just averages), whether borrowers are in-state or out-of-state students, and what their family income background is. Asking the colleges to complete the three tables below would be a great first step toward understanding what is happening with student debt and how it's changing over time. (The first table includes actual data from a large eastern public university).

Large State University
Average Student Loan Debt at Graduation
Undergraduates with debt 2006-7

	In-State Students		Out-of-State Students	
Income Range	Number of Students	Average Debt	Number of Students	Average Debt
$0 - $40,000	2,042	$30,778	276	$41,053
$40,001 - $85,000	2,230	$25,051	275	$36,020
$85,001 +	2,583	$22,142	728	$28,202
Unknown (no FAFSA)				
67% of all graduating seniors have debt; average is $26,300				

Ranges of Student Debt for in- and out-of-state students

Amount of Student Loan Debt at Graduation	In-State Students	Out-of-State Students
None	%	%
$1 - $10,000	%	%
$10,001 - $20,000	%	%
$20,001 - $30,000	%	%
$30,001 - $40,000	%	%
$40,001 - $50,000	%	%
$50,000 +	%	%
	100%	100%

Ranges of debt by income level

Amount of Student Loan Debt at Graduation	In-State Students by Income			
	$0 - $40,000	$40,001 - $85,000	$85,001 +	Income Unknown
None	%	%	%	%
$1 - $10,000	%	%	%	%
$10,001 - $20,000	%	%	%	%
$20,001 - $30,000	%	%	%	%
$30,001 - $40,000	%	%	%	%
$40,001 - $50,000	%	%	%	%
$50,000 +	%	%	%	%
	100%	100%	100%	100%

The Iowa Student Loan Liquidity Corporation should step up to the plate with more information, too. I'm baffled as to why the *Des Moines Register* and the Iowa College Student Aid Commission have to survey campuses to find out how many students are taking out Partnership loans and how much they were paid in processing fees by ISLLC. The organization should be asked to complete a table like the one below for each campus participating in its programs.

ISLLC Loans & Terms: Undergraduate Students & Families School: Sample University Year: 2006-7				
Loan Type	Rate	Fee	Number of Borrowers	Average Borrowed
Cosigner	8.4% Fixed	1%		
Cosigner	LIBOR+2.85 (max 21%)	0%		
Cosigner	LIBOR+2.2 (max 21%)	5%		
No Cosigner	LIBOR+4.2 (max 21%)	0%		
No Cosigner	LIBOR+2.7 (max 21%)	9%		
Parent	8.4% Fixed	1%		
Parent	LIBOR+2.2 (max 21%)	5%		

The information provided should be audited by the Superintendent of Banking since, as I understand it, that is the agency responsible for monitoring the appropriate use of the state's tax-exempt bond funds.

Thank you again for your attention to the important issue of paying for college and rising student debt.

APPENDIX: Methodology Issues in State Debt Averages and Rankings

The Project on Student Debt has issued two reports about student debt levels at the campus and statewide levels: "Student Debt and the Class of 2005," issued in August 2006 and "Student Debt and the Class of 2006," issued in September 2007. Both reports are based on data submitted by four-year public and private non-profit colleges and universities to Peterson's.[32] All of the state, sector, and national averages reported in the reports are calculated as the average of the institutions in the grouping weighted by each institution's enrollment.

The August 2006 report focused on reporting averages by state and sector, exploring the relationship between debt levels and factors such as tuition of cost of living, and noting schools that were exceptions to expected trends (such as those with high tuition but low debt.) All institutions that reported an average debt figure to Peterson's for the class of 2005 were included. If the proportion with debt was missing, the national average of 66% was used.[33] The September 2007 report focused on the change in debt levels at the state and national level from the class of 2005 to the class of 2006, the wide range of debt levels seen at the institutional level, and the problems with missing and inconsistent data. In order to compare between the two years, we excluded campuses that failed to report average debt figures for both years or failed to update the 2005 figures with new numbers in 2006.[34] If the proportion with debt was missing, the national average of 58% was used.[35]

In Iowa, there are 3 public universities and 33 private non-profit four-year colleges and universities.[36] All except one private college reported average debt figures for the class of 2005 and were included in state averages. Using the data from these 35 institutions produced the following state averages: $23,198 for public schools, $22,184 for private schools, and $22,727 overall. Using a slightly adjusted methodology and applying it to both the class of 2005 and 2006 shows that student debt rose from $22,721 to $23,680.[37] Using this methodology, Iowa was second only to New Hampshire for the highest debt for both years.

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[32] The Institute for College Access & Success, Inc., the sponsor of the Project on Student Debt and economicdiversity.org, has licensed the debt data through an agreement with Peterson's. The data are copyright © 2006, 2007 Peterson's, a Nelnet company. All rights reserved.
[33] This figure was calculated by the Project on Student Debt from the 2004 National Postsecondary Student Aid Study (NPSAS:04) Data Analysis System (DAS), http://nces.ed.gov/surveys/npsas/das.asp.
[34] The Peterson's questionnaire provides campuses with the prior year number already filled in. If the campus does nothing, the old numbers are repeated.
[35] This is the weighted average for the institutions that reported usable average debt and percentage with debt figures.
[36] The list of schools and other campus data (tuition, enrollment, and Pell grant recipients) used in these reports and are from economicdiversity.org and are derived from U.S. Department of Education sources.
37 For cases with average debt data but no percentage with debt data, the adjusted methodology uses the national average from the Peterson's data rather than the national average from NPSAS:04.

Using the methodology from the September 2007 report, three schools were excluded for having missing data for 2005 and/or 2006 and fourteen schools were excluded for failing to update their data from 2005 for the class of 2006. The calculations in this report were based on the remaining nineteen institutions, representing 60% of the students in the state. (At the national level 791 of 1887 institutions, representing 57% of students, submitted usable data.) These data showed that Iowa had an average debt level of $21,477 for the class of 2005 and $22,926 for the class of 2006. The state rankings in this report excluded states where the usable data represented less than 30% of the students. Using this methodology, Iowa was the 3rd highest state for average debt in 2005 and 5th in 2006.[38]

Class Year	Iowa		National		Institutions included if they had . . .
	Average Debt	% with Debt	Average Debt	% with Debt	
2005	$22,721	72%	$17,984	58%	Average debt data for 2005
2006	$23,680	74%	$18,918	58%	Average debt data for 2006
2005	$21,477	70%	$18,259	58%	Distinct average debt figures for 2005 and 2006
2006	$22,926	74%	$19,646	58%	Distinct average debt figures for 2005 and 2006

[38] In the report, the rankings included the District of Columbia, where average debt is higher than Iowa. Therefore, Iowa was listed as 4th in 2005 and 6th in 2006.