BLAZING A NEW PATH: FUTURE TRENDS IN HOW FAMILIES PAY FOR EDUCATION

TRENDS IN EDUCATION FINANCE

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2015 IASFAA CONFERENCE
Agenda

This presentation is an overview of trends in the industry and how families are paying for college

► Cost of Education and Enrollment

► Is the Cost of College Worth It?

► How America Pays for College Survey Results

► Best Practices for Counseling Families
Cost of Education and Enrollment
Trends Likely to Shape Student Aid

► Continued rising cost of attendance
► President’s proposal on free community college
► Decline in availability of non-federal sources of funding
► Continued pressure on in state and institutional funding due to budget constraints
► Changes to PLUS loan eligibility and appeals process
  – Additional clarification expected in March
► Flat/declining enrollment on many campuses
► Improving economy has resulted in a decline in people going back to school
Higher Education Act (HEA) up for reauthorization
- Expired in October 2013; but extended on year-by-year basis
- 2014: Hearings and proposals
- 2015: More hearings, possible legislative action

Major themes of reauthorization
- Simplification of federal loan programs
  - Fewer loan types, streamline interest rates & repayment options
- College cost and school eligibility
  - Gainful employment and measuring school effectiveness
  - “Skin in the game” accountability for federal aid
- Consumer protections
  - Information and disclosures
  - Ability to refinance loans; discharge in bankruptcy
  - Servicing and collections requirements
College Costs Continue to Increase

Average Published Tuition and Fees

<table>
<thead>
<tr>
<th>Year</th>
<th>NFP4 - Private</th>
<th>NFP4 - Public</th>
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<td>AY 14-15</td>
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<td>2.9%</td>
<td>3.3%</td>
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</table>

The total Postsecondary Education spend has increased by 67% over the last 10 years

Source: The Total postsecondary education spend is estimated by Sallie Mae determining the full-time equivalents for both graduates and undergraduates and multiplying by the estimated total per person cost of attendance for each school type. In doing so, we utilize information from the US Department of Education, College Board, MeasureOne, National Student Clearinghouse and Company Analysis.
Proportion of Families Using Federal and Private Student Loans for AY2013-14

- Both federal & private loans: 6%
- Federal only: 22%
- Student loans: 29%
- Private only: 1%
- No student loan in 2013-14: 71%

Source: Sallie Mae (with Ipsos Public Affairs); How America Pays for College, 2014
In 2013, 40% of borrowers with education debt owed less than $10,000 for undergraduate and graduate study combined, while 13% owed $50,000 or more.

Between December 2012 and December 2013, total outstanding education debt grew by 10%, from $974 billion to $1.08 trillion.

- The number of borrowers holding debt increased by 9%, from 39 million to 42 million.
- The average outstanding debt per borrower increased by 1%, from $25,060 to $25,361.

Source: College Board 2014 Trends in Student Aid
Student Loans: Growth in Federal & Private Loans

Note: Nonfederal loans include loans to students from states and institutions, in addition to private loans issued by financial institutions.

SOURCE: College Board Trends in Student Aid 2014
In the Fall of 2013, there was a slight decrease (1.4%) in overall postsecondary enrollment after a relatively flat year prior.

In the Fall of 2013, there was a decrease in undergraduate enrollment (1.6%), while graduate enrollment was flat YoY.

IPEDS Fall Enrollment Survey (actuals through December 2013, released November 2014)
Is the Cost of College Worth It?
32% of the total population ages 25 and older held a Bachelor’s degree or higher, 41% had a high school degree or less.

The unemployment rate for individuals 25 and older with at least a bachelor’s degree averaged 4.0%, compared with an average unemployment rate of 6.1% for all individuals 25 and older.

Data is for age 25 and over, earnings are for full-time wage and salary workers.
Between 1970 and 2013 as a whole, those with a bachelor’s degree earned about $64,500 per year, while those with a high school diploma earned only $41,000 annually.

- Those with a bachelor’s degree tend to earn 56% more than high school grads.
- Between 2001 and 2013, the average wage of workers with a bachelor’s degree declined by 10.3%, whereas the average wage of workers with a high school diploma only declined by 7.6%
  - However, even with the wage decline, those with a bachelor's degree earn a 75% wage premium
  - The decline in wages has been largely driven by the recent recessions
Over the 4 year period that is typically required to earn a bachelor’s degree, a student would have paid $26,000 in tuition and would have forgone nearly $96,000 in wages.

- The total economic cost of a bachelor’s degree was $122,000.

Despite entering the work force at a later age though, workers with a bachelor’s degree earn over $1 million more than high school graduates during their working lives.
The Fed researchers show that the higher the debt burden, the lower the default rate. Those with burdens above $100,000 had the lowest rate at 17.6%.

Likely reasons:
- Individuals with small loan balances did not finish their education.
- Low-balance borrowers attained credentials such as certificates that don’t lead to the kind of jobs and salaries that a bachelor’s degree does.
- Many borrowers with large loan balances are people who graduated from master’s programs and professional schools who typically end up with generous salaries.

Source: Federal Reserve Bank
Families Agree in the Value of Attending College

Source: “How America Pays for College,” August 2014
How America Pays for College Survey Results
College savings reach new high in 2013

Total Assets in State-Sponsored Section 529 Savings Plans ($ Billions)

SOURCE: College Board Trends in Student Aid 2014.
Role of Savings

- 15% of families used parent savings from dedicated college savings plans/529s

- 7% used retirement savings

- 12% used parent savings from other types of investments

- 31% of families used student savings

Source: Sallie Mae (with Ipsos Public Affairs); How America Pays for College, & How America Saves For College 2014
Families Work at Containing College Costs

- Spending has leveled off
- Families continue to eliminate certain colleges due to cost
  - 79% attend college in state
- 82% of families—the highest since the study began—filed the FAFSA
- 96% of families took at least one action to make college more affordable

Source: Sallie Mae (with Ipsos Public Affairs): How America Pays for College, 2014
Differences in Affordable Actions Taken by School Type to Make College Affordable

Source: Sallie Mae (with Ipsos Public Affairs): How America Pays for College, 2014
Affordable Actions, Year over Year

Student chose school in-state to pay lower tuition fees
- 2014: 0%
- 2013: 69%

Student reduced personal spending
- 2014: 0%
- 2013: 60%

Student chose school closer to home to cut down on travel costs
- 2014: 0%
- 2013: 61%

Living At Home
- 2014: 0%
- 2013: 59%

Parent Reduced Spending
- 2014: 0%
- 2013: 54%

Student Work More
- 2014: 0%
- 2013: 57%

Tax Credits/ Deduc.
- 2014: 0%
- 2013: 59%

Add Roommate**
- 2014: 0%
- 2013: 60%

Accelerate
- 2014: 0%
- 2013: 61%

Early Loan Payments
- 2014: 0%
- 2013: 62%

Parent Work More
- 2014: 0%
- 2013: 63%

Changed Majors
- 2014: 0%
- 2013: 64%

Part Time
- 2014: 0%
- 2013: 65%

Transfer to Less Expensive School*
- 2014: 0%
- 2013: 66%

Military
- 2014: 0%
- 2013: 67%

Source: Sallie Mae (with Ipsos Public Affairs); How America Pays for College, 2014
Cost Saving Choices

► 68% eliminated colleges due to cost at some point during the selection process
► 77% attend college in their home state
  – 61% chose a school close to home to reduce transportation costs
  – 54% live at home
  – Of those not living at home, 41% added a roommate
► 28% have accelerated their course work
► 66% of students reduced their personal spending

Source: Sallie Mae (with Ipsos Public Affairs); How America Pays for College, 2014
Completion of FAFSA by grade level, year-over year

Source: Sallie Mae (with Ipsos Public Affairs); How America Pays for College, 2014
Trends in Funding

➢ Parent out-of-pocket contributions paid a larger share in AY13-14
  – More families took advantage of dedicated college plan savings
➢ Grants and scholarships are filling the void left by parents
➢ Borrowing decrease this year

Source: Sallie Mae (with Ipsos Public Affairs); How America Pays for College, 2014
21% of families reported using only out-of-pocket funds this year (parents, students, relatives)—no borrowing and no scholarships or grants

81% of families filed a FAFSA
  - Freshmen: 84%
  - Among those who did not file a FAFSA, 15% report applying for some type of financial aid

66% of families reported using some type of grant or scholarship
  - 80% report receiving something from school
  - 75% report receiving something from a non-profit
  - 61% report receiving something from the state

Source: Sallie Mae (with Ipsos Public Affairs): How America Pays for College, 2014
Proportions of Families Who file FAFSA

Source: Sallie Mae (with Ipsos Public Affairs); How America Pays/Saves for College, 2014
How the Typical Family Pays for College, Funding Source Share

- Student Borrowing: 15%
- Parent Borrowing: 7%
- Parent Income & Savings: 30%
- Grants & Scholarships: 31%
- Relatives & Friends: 4%
- Student Income & Savings: 12%

*Numbers are rounded

Source: Sallie Mae (with Ipsos Public Affairs); How America Pays/Saves for College, 2014
Best Practices for Counseling Families
Families should look for scholarship search engines that offer:

- FREE, easy-to-use database
- Calendar listing scholarships by deadline
- Filtering capabilities
  - By name
  - By deadline
  - By award amount
- Rating of scholarships
- Adjustable settings
- Email alerts when new scholarship matches are available
Sallie Mae’s free scholarship search provides access to more than 3 million scholarships worth up to $18 billion
  – SallieMae.com/ScholarshipSearch

Fastweb.com features over 1.5 million scholarships worth up to $3.4 billion
  – Fastweb.com/college-scholarships

Private Scholarship Resources
  – KFC Scholarships
  – Coca-Cola Scholarships
  – Wal-Mart Scholarships
  – Exxon Mobil Scholarship
  – Ronald McDonald House Charities Scholarships
  – General Electric Foundation Scholarships
  – Target Scholarship Application
  – Scholarship America
  – AT&T Labs Fellowship Program
Families should understand the total cost of funding and should consider a package of gap financing options and not limit themselves to just one
- Cash, Tuition Payment Plans, PLUS Loans and Private Loans

Families should only borrow what they need

Responsible borrowing: A creditworthy borrower has good or excellent credit, an ability to repay the loan and the capacity to take on the debt
- The Ability to Pay: A comparison of the applicant’s total debt to their total income and a review of their outstanding student loan indebtedness
- Stability: How long they have been at their current address, job stability, and established credit history
- Willingness to Pay: Credit score and payment history on other types of credit
Most colleges and universities offer tuition payment plans.

Allows parents and students to pay their tuition in manageable monthly payments using their income.

Tuition payment plans help attract and retain students by giving them an additional funding solution.

Provides an interest free funding option.
Some lenders are offering fixed rates as good or better than PLUS loans to highly qualified graduate students
  - Some students are seeking out private loans in order to take advantage of the loan rates

Schools are becoming concerned about debt in the student’s name

Cosigner release is becoming more of a topic of conversation

Death and disability discharge

Families are becoming concerned about using 401K to pay for their child’s education

Some lenders have programs available for cohorts of students not eligible for federal programs
  - LTHT students
  - Prior term balances
  - Continuing education

Students are looking for ways to refinance their loans through consolidation
Questions
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