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Subject: Student Borrowing in the US and at the UW

As tuition has increased over the years, educational borrowing has increased alongside it as the federal government has expanded annual and total loan limits to help students close the gap between available resources and cost. As the US experiences slow economic recovery and continuing high unemployment rates, concern about student borrowing levels has increased significantly. This brief provides basic information and data about student borrowing to help contextualize such concerns. There are three primary types of educational loans that a student may take out and each are described below¹, as well as how loans are currently used by UW students.

In the US, over 2/3rds of students borrow money to complete a BA degree. Across all types of institutions, the average amount of debt upon graduation is over \$24,000 and increasing ever year. However, debt burdens vary dramatically by the type of institution attended. National Department of Education data show that only 12 percent of public university BA graduates borrow \$30,000 or more, while 25 percent of private non-profit graduates do, and in the for-profit sector, fully 57 percent of graduates do. Similarly, 38 percent of public BA graduates finish with zero debt, while only 4 percent of for-profit graduates complete school without debt (private non-profits are in between, at 28%).

Federal student loans

Stafford

The most common federal student loan is the Stafford loan, which used to comprise both Federal Family Education Loan Program (FFELP) loans that were provided by private lenders and guaranteed against default by the federal government and the Federal Direct Student Loan Program (FDSLP) loans directly provided by the federal government. Since student loan reform passed Congress in 2010, the FFEL Program was eliminated and all Stafford loans are now provided directly by the federal government.

Federal Stafford loans can be subsidized (government pays interest while student is enrolled) or unsubsidized (interest accrues while student is enrolled). Subsidized Stafford loans are awarded based on income and over 2/3rds of such awards are made to families with annual incomes below \$50,000 per year. All students are eligible to receive unsubsidized Stafford Loans.

All Stafford loans are subject to a fixed interest rate of 6.8 percent (except for temporary reductions applied to subsidized rates during the Great Recession), and are subject to annual and lifetime loan limits, as show in Figure 1. All Stafford loans enter repayment status six months after graduation or when a student is enrolled in school less than half-time. Standard repayment is over ten years.

¹ For further information on student loans, visit: <http://www.finaid.org/loans/>

Figure 1: Annual and Lifetime Loan Limits by Student Type

Dependent Students		Annual Loan Limits	
First Year	\$5,500	(\$3,500 subsidized/\$2,000 unsubsidized)	
Second Year	\$6,500	(\$4,500 subsidized/\$2,000 unsubsidized)	
Third Year and Beyond	\$7,500	(\$5,500 subsidized/\$2,000 unsubsidized)	
Independent Students		Annual Loan Limits	
First Year	\$9,500	(\$3,500 subsidized/\$6,000 unsubsidized)	
Second Year	\$10,500	(\$4,500 subsidized/\$6,000 unsubsidized)	
Third Year and Beyond	\$12,500	(\$5,500 subsidized/\$7,000 unsubsidized)	
Graduate/Professional	\$20,500	(\$8,500 subsidized/\$12,000 unsubsidized)	
Lifetime Limits			
Undergraduate Dependent	\$31,000 (Up to \$23,000 may be subsidized)		
Undergraduate Independent	\$57,500		
Graduate or Professional	\$138,500 (Up to \$65,000 may be subsidized) or \$224,000 (for Health Professionals)		

Perkins

Perkins Loans are a less common type of Stafford loan and are awarded to students with exceptional financial need. The federal government provides campuses with a pool of funds that institutions disburse as subsidized loans to undergraduate and graduate students based on need. It has a lower interest rate (5%) and a longer grace period (9 months) with no origination or default fees. A financial aid office can award up to \$5,500 per year to undergraduate students and up to \$8,000 per year to graduate student with cumulative limits of \$27,500 and \$60,000 respectively.

Federal parent loans (PLUS)

When a student has remaining financial need once all federal student loans have been applied, his or her parents may be eligible for a federal parent loan. The federal Parent Loan for Undergraduate Students (PLUS) allows parents to borrow any amount equal to or less than the gap between the student’s financial aid package and the full cost of attendance with no cumulative limit. Similar to Stafford loans, PLUS loans are now made directly by the federal government. These loans are now available for graduate and professional students as well (Grad PLUS Loans).

PLUS loans have a fixed interest rate of 7.9 percent and are the sole responsibility of the parent. Recipients pay a four percent loan fee and interest is not subsidized while the student is enrolled in school. Repayment begins 60 days from disbursement unless the parents decide to defer payment until graduation (interest still accrues). To be eligible for a PLUS loan a parent has to not have an adverse credit history.

Private or alternative educational loans

If a student or family has borrowed the maximum amount of federal loans they are eligible for (difference between expected family contribution and cost of attendance) but still has a gap between actual costs and resources, or wants more flexible loan or repayment terms, they can turn to the private lending market. Private loans typically have variable interest rates and are more costly than federal loans. If a student or family use private loans to cover the federally

determined expected family contribution there are no financial consequences. However, if the student or family take out educational loans beyond the cost of attendance, those resources are considered for financial aid calculation purposes and may lower the amount of other aid offered.

Use of educational loans at the UW

UW students take advantage of all of the loans described above to varying degrees. As show in Figure 2², even though students from lower income households are likely to receive the highest amount of grant and scholarship aid, they also graduate with the highest level of debt among undergraduate students. Additionally, the average debt at graduation has increased for students in all income groups over the last five years, which is consistent with the national trend and correlates with increasing tuition.

Figure 2: Average Debt upon Graduation for UW Resident Undergraduates Who Have Debt, by Income and Year

Income	Avg Total Debt
2010/11	
<\$25,000	\$21,256
\$25,000-\$49,999	\$17,657
\$50,000-\$74,999	\$18,927
>\$75,000	\$18,789
2007/08	
<\$25,000	\$17,428
\$25,000-\$49,999	\$15,867
\$50,000-\$74,999	\$14,783
>\$75,000	\$14,438
2004/05	
<\$25,000	\$17,784
\$25,000-\$49,999	\$16,613
\$50,000-\$74,999	\$14,435
>\$75,000	\$13,774

When we look at the type of loans being disbursed to UW students in the most recent year (2011), Figure 3 below shows that undergraduates across the income spectrum are taking advantage of all types of loans. Somewhat surprisingly, students from households with annual incomes up to \$150k per year appear to be receiving similar amounts of subsidized *and* unsubsidized Stafford loans. Unsurprisingly, the more income sensitive Perkins loans are concentrated at the lower end of the income spectrum, as are private loans. Also unsurprising, PLUS loans tend to be much more heavily used by families of nonresident students who pay much higher tuition and therefore have a much larger gap between EFC and cost of attendance than resident students to cover.

² UW data supplied by UW Office of Student Financial Aid.

Figure 3: 2011 Loan Disbursements for UW Student with Need by Income and Loan Type, Undergraduate

Income	Resident					Nonresident				
	Subsidized Stafford	Unsubsidized Stafford	Perkins	PLUS	Other	Subsidized Stafford	Unsubsidized Stafford	Perkins	PLUS	Other
\$0-10k	\$2,568	\$1,249	\$636	\$37	\$795	\$2,478	\$1,741	\$904	\$2,628	\$1,173
\$10-20k	\$2,480	\$1,171	\$370	\$81	\$643	\$2,911	\$1,610	\$1,173	\$3,545	\$1,948
\$20-30k	\$2,420	\$1,030	\$392	\$142	\$608	\$2,989	\$1,890	\$1,221	\$5,128	\$1,049
\$30-40k	\$2,291	\$1,042	\$246	\$152	\$430	\$3,379	\$1,401	\$1,308	\$6,305	\$957
\$40-50k	\$2,271	\$928	\$142	\$321	\$458	\$2,925	\$1,271	\$912	\$8,528	\$513
\$50-75k	\$2,511	\$1,134	\$58	\$1,036	\$518	\$2,895	\$1,293	\$318	\$4,964	\$817
\$75-100k	\$2,791	\$1,578	\$3	\$2,257	\$619	\$3,124	\$1,417	\$0	\$4,028	\$1,388
\$100-150k	\$2,660	\$1,665	\$6	\$2,508	\$759	\$2,917	\$1,367	\$0	\$3,432	\$593
\$150-250K	\$1,700	\$1,615	\$0	\$2,052	\$836	\$2,467	\$1,353	\$0	\$3,789	\$308

As Figure 4 shows, overall loan disbursements for graduate and professional students at the UW are much higher due to less scholarship and grant aid. Additionally, the differences between resident and nonresident differences are not nearly as stark, likely because tuition levels are not as disparate at the graduate and professional level.

Figure 4: 2011 Loan Disbursements for UW Student with Need by Income and Loan Type, Graduate/Professional

Income	Resident					Nonresident				
	Subsidized Stafford	Unsubsidized Stafford	Perkins	PLUS	Other	Subsidized Stafford	Unsubsidized Stafford	Perkins	PLUS	Other
\$0-10k	\$6,205	\$8,718	\$524	\$2,536	\$1,113	\$5,868	\$8,766	\$522	\$5,118	\$697
\$10-20k	\$6,186	\$6,786	\$311	\$2,171	\$735	\$5,832	\$6,621	\$254	\$4,005	\$737
\$20-30k	\$5,899	\$6,702	\$97	\$2,167	\$510	\$5,955	\$6,445	\$0	\$3,539	\$473
\$30-40k	\$6,194	\$6,877	\$102	\$2,872	\$741	\$5,782	\$6,640	\$45	\$5,455	\$536
\$40-50k	\$5,503	\$5,711	\$98	\$1,793	\$735	\$5,709	\$9,292	\$28	\$5,027	\$897
\$50-75k	\$5,488	\$6,412	\$27	\$1,943	\$328	\$4,833	\$6,577	\$14	\$3,639	\$224
\$75-100k	\$4,668	\$5,481	\$5	\$1,616	\$440	\$3,692	\$7,910	\$0	\$5,866	\$471
\$100-150k	\$4,361	\$7,014	\$0	\$2,975	\$734	\$4,458	\$5,432	\$0	\$1,636	\$0
\$150-250K	\$5,147	\$5,977	\$0	\$3,118	\$0	N/A	N/A	N/A	N/A	N/A

Over time, the federal government has responded to increasing tuition with increasing the availability of federal loans. While this has facilitated student access in the face of rising costs, it has also significantly increased the debt burden at graduation. Loans play a very important role in accessing and completing higher education, but as they continue to increase, the toll repayment takes on the student’s finances after graduate can be substantial.