SOUTH DAKOTA BOARD OF REGENTS

<u>Academic and Student Affairs</u>

AGENDA ITEM: 5 – Z (3)

DATE: December 2-3, 2015

****

SUBJECT: Graduate Debt Analyses

This briefing reviews two recent national reports on student debt. Attachment I presents data which recently were published by the Institute for College Access and Success (TICAS). Specifically, Attachment I summarizes information on two debt indicators (*average debt of students with loans* and *percent of graduates with debt*) for bachelor's degree completers at four-year institutions in South Dakota and the nation. Attachment II provides a basic overview of federal student loan default rate data from the US Department of Education.

****

RECOMMENDED ACTION OF THE EXECUTIVE DIRECTOR

Information only.

*** Special Data Analysis ***

Student Debt in South Dakota

In October 2015, the Institute for College Access and Success (TICAS) issued a report on the educational indebtedness of graduates from American four-year institutions.[1] This report, which is updated annually, indicates that 61 percent of students completing four-year degrees in the United States in 2014 graduated with debt, with an average debt load of more than $27,000 for those with loans.[2] For students graduating from South Dakota institutions, these figures were approximately 69 percent and $26,000, respectively. South Dakota's percent-with-debt figure was higher than those of most other states. This analysis provides a closer examination of student debt data used in the TICAS report.

Background

College affordability is among the hottest issues in higher education. Rising college sticker prices and a fiercely competitive job market for recent graduates have combined to place a great deal of attention on the costs shouldered by students at all postsecondary levels. At the same time, the goal of boosting educational attainment in the United States has become a significant policy focus of the current presidential administration. Consequently, US postsecondary institutions face pressures to enroll and graduate more students than ever before, but with the lowest possible financial burden. A key corollary of this situation is that student loans – and by association, student debt – have become especially salient topics in the public square. In this context, several recent articles of major federal policy have affected the way students receive loan support to attend college:

- *Student Loan Direct Lending*

    Title II of the *Health Care and Education Reconciliation Act of 2010 (Public Law 115-152)* – sometimes referred to as the *Student Aid and Fiscal Responsibility Act* – eliminated the former practice of bank-based lending for student loans.[3] Federally guaranteed student loans now are originated and administered directly by the US Department of Education. The Congressional Budget Office (CBO) estimated that this measure would reduce the federal deficit by approximately $40 billion by 2020; a portion of these savings were rerouted to supplement other student loan programs.[4]

---

[1] The 2014 TICAS report is available at http://ticas.org/sites/default/files/pub_files/classof2014.pdf . The Institute for College Access and Success is an independent, nonpartisan, nonprofit organization that conducts policy analysis and advocacy work in higher education.
[2] Unless otherwise noted, figures include bachelor's degree completers at public or private nonprofit four-year institutions only.
[3] Text of Public Law 115-152 is available at http://www.gpo.gov/fdsys/pkg/PLAW-111publ152/pdf/PLAW-111publ152.pdf
[4] A summary of the CBO estimate is available at http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/113xx/doc11343/03-15-student_loan_letter.pdf

- *Pell Grant Maximum*

The federal Pell Grant program provides need-based aid to undergraduate students with limited financial means. A portion of the funds saved through the elimination of bank-based lending was redirected to raise the annual maximum Pell Grant award. The bill also established that the annual maximum award would be indexed to inflation in subsequent years as a means to maintain equivalent purchasing power. As of the 2015-2016 award year, the annual maximum Pell award was $5,775.[5]

- *Income-Based Repayment and General Loan Forgiveness*

The above legislation also established new operating rules for federal income-based loan repayment and forgiveness programs. Previously, student borrowers demonstrating financial hardship held the option to cap monthly student loan payments at 15 percent of *discretionary income* (i.e., adjusted gross income minus 150 percent of the federal poverty level). Under this system, any unpaid federal loan principal remaining after 25 years of on-time payments was forgiven. The 2010 law modified these criteria to 10 percent and 20 years, respectively. Subsequently, an executive order enacted by the Obama administration in June 2014 further expanded the number of students who qualify for income-based repayment by removing date-of-borrowing restrictions that previously had limited the program to those taking out loans after 2007. New regulations governing this program expansion took effect in December 2015.

- *Public Service Loan Forgiveness Provisions*

The *College Cost Reduction and Access Act of 2007 (Public Law 110-84)* established a new loan forgiveness program under which public service employees may have all federal loans forgiven after ten years of on-time payments under an eligible repayment plan.[6] Under this program, borrowers must maintain continuous employment in the public sector during the initial ten-year repayment period, after which all remaining principal and interest on federal loans are discharged.

A number of other field- or circumstance-specific federal loan forgiveness plans are currently in force. For example, loan cancellation or repayment programs are available to Peace Corps and AmeriCorps volunteers, military service members, teachers, legal and medical workers, and some federal employees. Both the federal government and most state governments offer a variety of loan forgiveness programs. Such programs typically involve particular eligibility conditions, such as working in high-need locales and/or committing to a specific duration of service. See this site for an overview of major federal programs. See this site for additional examples of current state programs in South Dakota.

---

5 For more about the federal Pell Grant program, see http://www2.ed.gov/programs/fpg/index.html

6 Text of Public Law 110-84 is available at http://www.gpo.gov/fdsys/pkg/PLAW-110publ84/pdf/PLAW-110publ84.pdf

Analysis

It is important to note that the data used in the TICAS report reflect only a portion of all colleges and universities in the United States. TICAS uses unaudited student debt data voluntarily supplied by postsecondary institutions to *Peterson's Undergraduate Financial Aid and Undergraduate Database*. More specifically, only public and private nonprofit four-year institutions granting bachelor's degrees in 2013-14 were included in the TICAS analysis. In South Dakota, the 2014 TICAS analysis included data for eight institutions (DSU, NSU, SDSMT, SDSU, USD, Augustana, Dakota Wesleyan, and Mount Marty).[7] With this caveat in mind, Table 1 depicts basic student debt data as presented in the 2014 TICAS report:

Table 1
South Dakota Student Debt, Class of 2014

Average debt of students with loans:	$26,023
National rank:	31st highest
Percent of graduates with debt:	69%
National rank:	6th highest

That South Dakota is depicted as having the sixth-highest rate of graduate debt in the nation is unsettling. It is important to observe, however, that the state's student debt indicators have improved considerably since 2005, when TICAS issued its first annual report on student debt. Table 2 shows historical data for average debt load, debt rate, and respective state ranks, as summarized in each edition of the TICAS annual report.[8] These data indicate that the state gradually has repositioned itself from being among the highest-debt states (no. 8 in 2005) to a more moderate position (no. 31 in 2014). South Dakota's persistently high percentage of graduates with debt likely owes in part to the state's historic lack of a robust need-based scholarship program. With the creation of a modest need-based aid program during the 2013 legislative session, it is hoped that these figures will continue to improve in future years.

Table 2
South Dakota Student Debt, Trends

Year	Average Debt	National Rank	Percent with Debt	National Rank
2005	$19,724	8	82	1
2006	$21,103	11	84	1
2007	$22,254	10	81	1
2008	$22,486	17	79	1
2009	$23,581	17	78	1
2010	$23,171	25	75	1
2011	$24,232	25	76	2
2012	$25,121	28	78	1
2013	$25,750	29	72	2
2014	$26,023	31	69	6

Note: For both "rank" columns, high values are preferred to low values.

[7] Graduates from these institutions accounted for 81 percent of the state's total bachelor's degree recipients in 2014.
[8] TICAS cautions against comparing year-to-year figures directly, as institutional comparison groups or methodological technicalities may change from year to year. Figures are presented here simply to highlight the state's relative performance in each of TICAS's annual reports.

Figures 1 and 2 provide debt trends for two institutional sectors in South Dakota: public four-year institutions and private (nonprofit) four-year institutions.[9] It can be seen that – after adjusting for inflation – the state's public four-year sector has maintained a relatively unchanged pattern of average debt over the last decade. This sector also has substantially reduced its percent-with-debt figures over this period. Overall, South Dakota's public four-year institutions appear to outperform the state's private (nonprofit) four-year institutions with respect to both metrics.

Figure 1
Average Debt, South Dakota (Inflation-Adjusted)

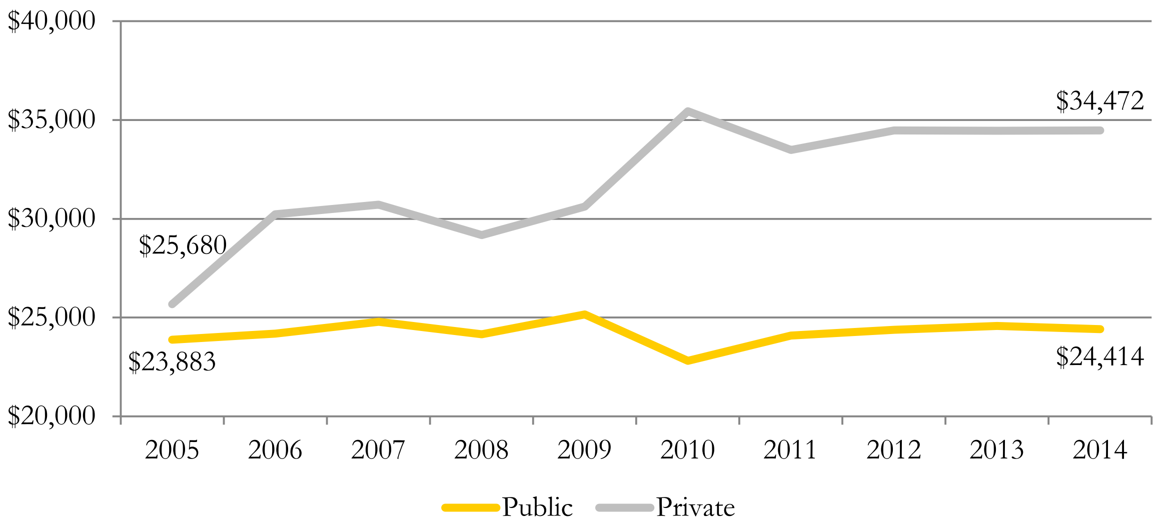
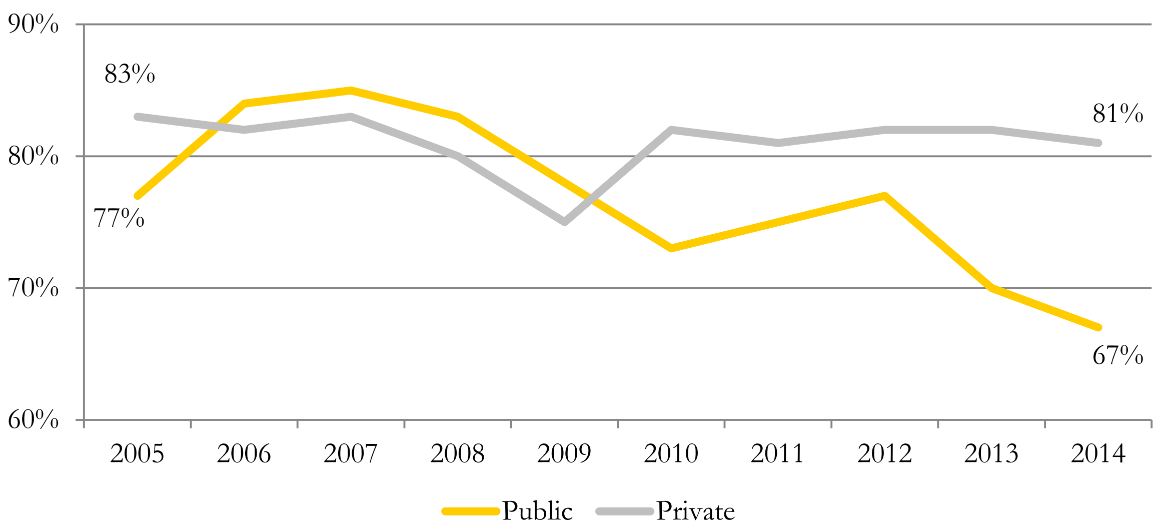


Figure 2
Percent with Debt, South Dakota



[9] All data presented in the following tables were generated from queries of the TICAS data system, accessible at http://college-insight.org/#explore/go. Average debt figures are shown in constant 2014 dollars.

Figures 3 and 4 provide historical data from public four-year institutions in other states.[10] Figure 3 indicates a generally flat trend in average debt among South Dakota institutions, in contrast to a recent climbing trend in most neighboring states.[11] Figure 4 is suggestive of a high rate of debt among South Dakota graduates, but notes a distinct fall in these figures over the last decade. For both measures of student debt, South Dakota's figures have held steady or improved over the analyzed time series, while national figures have markedly.

Figure 3

Average Debt, Public Four-Year Institutions, 2005-2014 (Inflation-Adjusted)

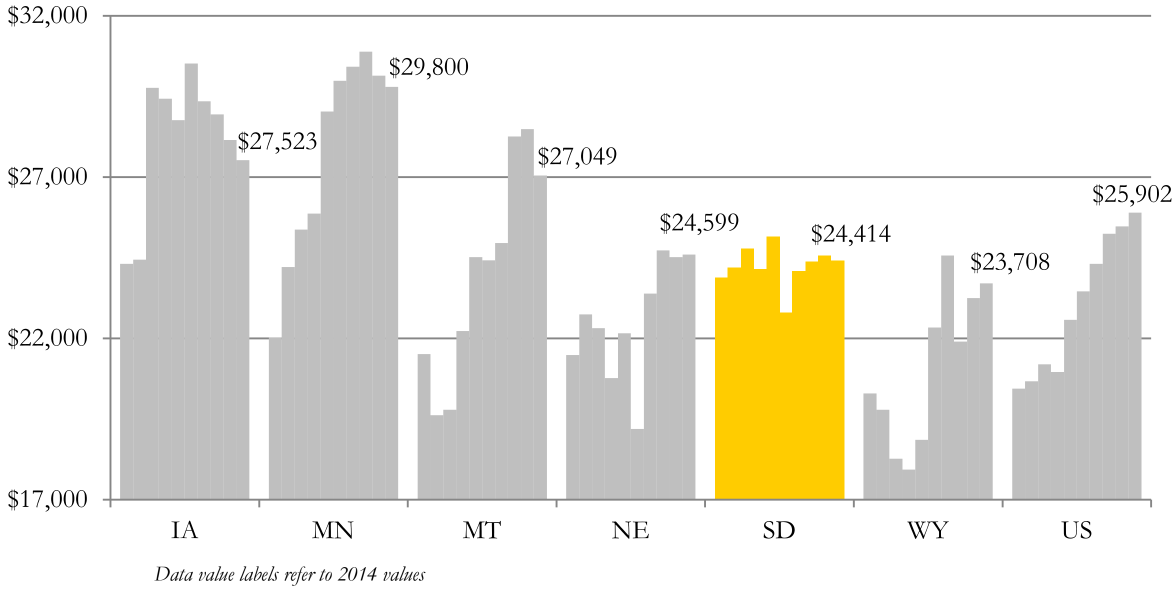
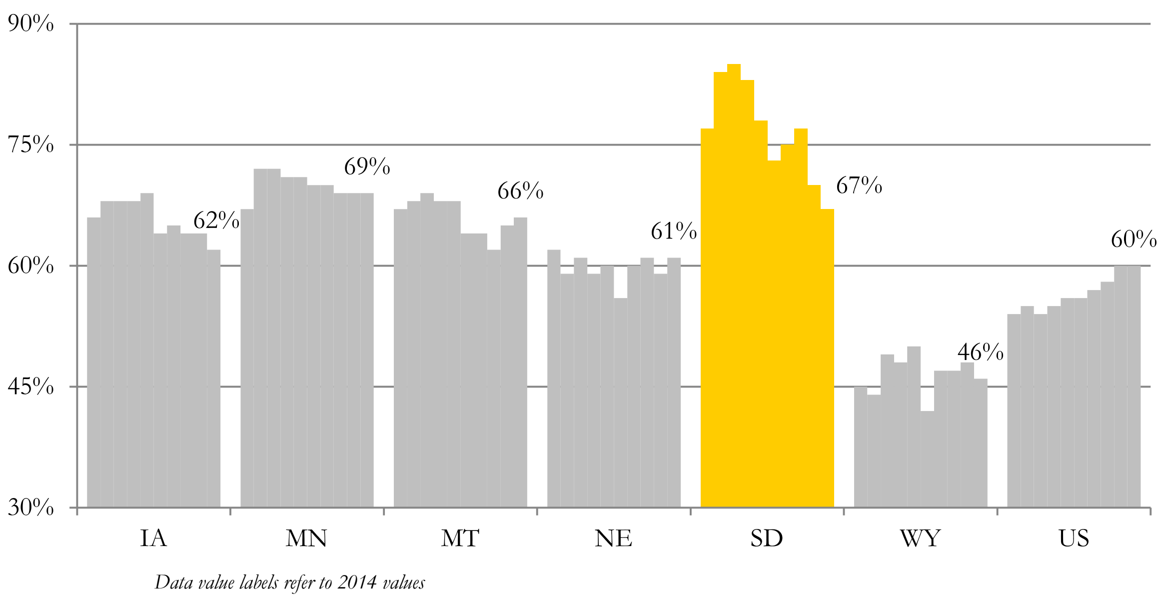


Figure 4

Percent with Debt, Public Four-Year Institutions, 2005-2014



---

[10] Values for North Dakota are not shown due to a lack of reported data in recent years. As of the last data submission by North Dakota universities (2011), the average debt value was $28,000 (in 2014 dollars) and the percent-with-debt value was 83 percent.

[11] Average debt figures are shown in constant 2014 dollars.

*** Special Data Analysis ***

Federal Student Loan Default Rates

Each year, the US Department of Education (USDOE) releases data on federal student loan default rates. Three-year default rates refer to *the percentage of federal student loan borrowers entering repayment in a given fiscal year who default on their loans by the end of the second following fiscal year.* Across all institutional types, the FY2012 national cohort (those students entering repayment during FY2012) generated a three-year loan default rate of 11.7 percent, compared to a rate of 13.5 percent recorded by the FY2011 cohort.[12]

The FY2012 three-year default rate for all South Dakota colleges and universities was 11.5 percent (down from 11.9 percent last year), ranking 25th lowest among all US states (MA was lowest, at 6.1 percent; NM was highest, at 20.1 percent). Over the last three years, SDBOR universities have recorded default rates well below those of the state's private, proprietary, and technical institutions (see Table 1). Across these three cohorts, SDSU generated the lowest average default rate (4.6 percent), followed by SDSMT (5.2 percent), USD (7.1 percent), DSU (8.5 percent), BHSU (8.6 percent), and NSU (10.7 percent).

Table 1
Postsecondary Loan Default Rates (SD)
(Percentages)

Institution Type	2010	2011	2012	3-Year Avg.
Private	9.5	10.5	9.3	9.7
Proprietary	23.8	21.0	20.1	21.6
Regental	7.7	6.3	6.1	6.7
Technical	15.4	13.8	11.5	13.6
All Types	13.0	11.9	11.5	12.1

Table 2 shows additional default data in three-year average format. South Dakota's average default rate across the 2010-2012 cohorts was 12.1 percent; this was considerably lower than the analogous national average of 13.2 percent. After segmenting these results by institutional type, it was found that the state's public institutions generated the lowest default rate across all sectors, ranking 7th lowest in the nation in this category.

Table 2
Postsecondary Loan Default Rates, 2010-2012 (Three-Year Averages)
(Percentages)

	All Types	Public	Private	Proprietary
South Dakota	12.1	8.4	9.7	21.6
United States	13.2	12.6	7.7	18.7
SD State Rank	25	9	36	48

[12] All figures presented in this report refer to fifty-state data only; institutions in the District of Columbia, US territories, and other outlying areas are excluded.