

Contact: Diana Gonzalez

IOWA STUDENT LOAN PRESENTATION

Action Requested: Receive the presentation.

Executive Summary: Dr. Tahira Hira, Professor and Senior Policy Advisor to the President at Iowa State University, serves as the Board of Regents representative on the Iowa Student Loan Board of Directors. The board provides oversight and checks and balances to ensure that Iowa Student Loan adheres to its mission and meets its obligations. Dr. Hira is a professor of Personal Finance and Consumer Economics at ISU. She has taught and conducted research in family financial management, consumer credit, gambling, and consumer bankruptcy in the United States and a number of other countries. She served on President Bush's Advisory Council on Financial Literacy and chaired the New York Stock Exchange's Financial Advisory Council. She also created ISU's Financial Counseling Clinic, which conducts research and provides hands-on experience in research and counseling to graduate and undergraduate students.

Iowa Student Loan (ISL) is a private, nonprofit corporation that has no shareholders and pays no dividends. It reinvests excess revenues over ongoing operations and expenses, beyond the funding of required and appropriate reserves, to benefit Iowa students and the people of Iowa in ways consistent with its mission. Its mission is to help Iowa students and families obtain the resources necessary to succeed in postsecondary education.

ISL is self-funded and does not receive state appropriations to fund its operations. It generates resources for its programs when it has a positive margin between the return on its student loans and the costs to fund and service them. "Total revenues for the corporation in FY 12 were \$102.7 million. Major sources of revenue included student loan interest (\$90.5 million); student loan fees (\$4.2 million); and student loan servicing fees (\$8.0 million)."

ISL focuses its efforts on providing programs and services that empower Iowa students before, during, and after college so they can ultimately reach their life goals. The organization does this in the following ways.

- ◆ **Empowering students before college** by providing free money management programs for all Iowa middle schools; creating financial literacy challenges for Iowa high schools; promoting its innovative online financial literacy tool, Student Loan Game PlanSM; and helping to fund free college planning services through the Iowa College Access Network (ICAN).
- ◆ **Empowering students during college** by providing students with transparent and competitive supplemental funding options and educating them on financial literacy topics.
- ◆ **Empowering students after college** by helping customers have a positive and successful repayment experience by taking a counseling approach with delinquent borrowers and offering varying degrees of repayment assistance as well as career and financial resources.

Before College Financial Literacy Initiatives

ISL created a 12-week money management curriculum for middle school students titled “It’s Worth It: Thinking Smart About Your Money.” The program began in Fall 2011 as a collaborative effort with Des Moines Public Schools. It was offered during the 2011-2012 academic year as an after school pilot program at Callahan and Meredith Middle Schools. As a result of the program’s success, Des Moines Public Schools received a grant to offer it at all middle schools in the district. This school year, ISL posted the program curriculum on its website and made it accessible to all Iowa school districts at no cost. In the first three months of the school year, educators downloaded the free online materials approximately 200 times.

This year, ISL partnered with the Iowa Department of Education, the Iowa Jump\$Start Coalition, Junior Achievement of Central Iowa, and the Iowa College Access Network to create an Iowa-based financial literacy challenge for high school students. Forty-four Iowa schools participated in this year’s Challenge, which incorporated Student Loan Game Plan and other financial literacy resources. In April, ISL provided \$1,000 cash prizes to 30 participating high schools. The schools were encouraged to use the money for their scholarship funds and financial literacy programs.

Student Loan Game Plan is an innovative online borrowing resource that was integrated into ISL’s online private loan application in December 2010. It is aimed at educating students and cosigners about the risks of over-borrowing and how borrowing more than what is necessary can have long-term effects on a student’s financial future. Interactive features allow the applicant to enter information about previous borrowing, estimated future borrowing, expected future salary, and estimated future expenses to calculate an approximate student loan debt-to-income ratio. Applicants are informed about how this ratio can indicate future financial success or difficulty. They are encouraged to consider different means of reducing costs and increasing income to reduce borrowing.

Statistical evidence shows that the tool is effective at changing applicants’ borrowing behaviors. Most recently, between February and October 2012, more than 3,500 private loan applicants completed Student Loan Game Plan, and of those applicants, 17% reduced the amount they planned to borrow by an average of \$2,000 each. Student Loan Game Plan has been well received by many educators and policymakers. In the Federal Consumer Financial Protection Bureau’s 2012 report on private student loans, it was mentioned as a “best practice” example for educating student consumers. Student Loan Game Plan is required for all applicants of private student loan programs owned or serviced by ISL, but it is also available to the general public on the ISL website at www.studentloan.org.

During College Financial Literacy Initiatives

Once students have their loans, ISL continues its educational efforts by keeping students informed of their borrowing levels and by offering financial literacy presentations at post-secondary institutions across the state. ISL’s staff conducted more than 60 presentations at 17 colleges this academic year, reaching almost 3,000 students. In addition to the traditional money management topics, such as financial aid, budgeting, identity theft, credit reports, and credit scores, the presentations also focused on the importance of career planning, aligning expectations with reality, the impact of student loan debt on a starting salary, and the importance of limiting debt while in college.

After College Borrower Assistance

Once students are no longer in school, ISL continues to provide needed assistance. It helps customers by taking a counseling approach with delinquent borrowers and offering varying degrees of repayment assistance, including economic hardship deferment, short-term payment relief, loan forgiveness for death or permanent disability, and negotiated payments, as well as career and financial resources.

In addition, ISL makes substantial contributions to the community in the form of grants, loan forgiveness, interest reduction benefits, and college planning support. For example, in 2010, ISL launched two grant programs to recognize new teachers and graduate-level nurse education students for their work in shortage areas. Recipients provide either full- or part-time nursing instruction or are first-year teachers in state-designated subject shortage areas. As of March 31, 2013, at least one award recipient of the ISL Teacher Career Establishment Grant began his or her teaching career within 82 of Iowa's 99 counties (83%). More than 450 teachers have received \$872,000 in grant funds since the inception of the program.

The Nurse Educator Grant Program has awarded \$448,000 in grant funds since its inception to 85 nurse educators. Recipients of these grants provide full- or part-time nursing instruction at 17 community colleges, private colleges and universities, and public universities in Iowa.

The Customer Iowa Student Loan Serves

ISL provides customer service to approximately 575,000 student loan borrowers who are in repayment. Of that number, about 170,000 have private loans and Federal Family Education Loan Program (FFELP) loans that originated in Iowa and total approximately \$3.1 billion. The remaining 405,000 are scattered across the country and have loans totaling more than \$9.5 billion that were disbursed through the U.S. Department of Education's William D. Ford Direct Loan Program.

Becoming a federal loan servicing contractor for the U.S. Department of Education has helped increase ISL's positive impact on local economic development. The nonprofit now employs more than 375 people at its West Des Moines office, including more than 90 new staff hired in 2012.

Research to Identify Factors Leading to Student Indebtedness

ISL has been performing internal research on student indebtedness and related financial literacy topics and seeking useful external research on the topics where appropriate. Some major findings of internal research have focused on state comparison of borrower attitudes, a debt-to-income ratio study and others. From this research, ISL has found that:

- ◆ Iowans agreed more frequently with the statement "It is important to go to college in order to be successful in life."
- ◆ Iowa students are more likely to agree they will borrow "whatever it takes" to complete their degree.
- ◆ As borrowers' student loan debt-to-income ratio increases, their (1) difficulty of making student loan payments also increases; (2) likelihood their first job after college is related to their field of study decreases; and (3) satisfaction with their standard of living, current job and income, future career prospects, and family life all decrease.

These research findings will help ISL's efforts in continuing to find solutions to combat student indebtedness and help students reach their life goals.