The **Torch**

March 16, 2012

A bi-weekly report from the Coalition of Higher Education Assistance Organizations

COHEAO News

- **COHEAO's Perkins Task Force to Host Community Conference Call on Perkins Appropriations**
  Please join COHEAO Executive Director Harrison Wadsworth, Perkins Task Force Chair Nancy Paris, and Commercial Chair Karen Reddick for a call on Monday, March 19 at 11:30 AM ET.
- **Registration to Open Soon for the COHEAO Mid-Year Conference**
  The COHEAO Agenda Committee met recently to continue work on putting together the program for the COHEAO Mid-Year Conference, which is scheduled for July 29-31 at the Ritz-Carlton Cleveland.
- **David Stocker Named to COHEAO Board of Directors, Will Head CFPB Workgroup**
  David Stocker of Account Control Technology was named to the COHEAO Board of Directors this week.
- **Reminder: COHEAO Scholarship Applications Due by March 31. Tell Your Students!**
  The 2012-2013 COHEAO Scholarship is now taking applications. An application and additional materials are available online.
- **Financial Literacy Corner: 2012 National Financial Capability Challenge Launched**
  This week, the Administration announced the launch of the National Financial Capability Challenge.

The Congress

- **Senate Judiciary Subcommittee to Examine Bankruptcy Discharge & Student Loans**
  The Senate Judiciary Subcommittee on Administrative Oversight and the Courts announced it will convene a hearing, "The Looming Student Debt Crisis: Providing Fairness for Struggling Students."
- **Four Budget Resolution Options Expected This Session, Nothing Likely to Pass**
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- **Reed, Courtney, and Students Rally for 3.4% Interest Rate Subsidized Stafford Loans**
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- **Rep. Donald Payne: 1934-2012**
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- **Otero Named HELP Staff Director**
  Chairman Tom Harkin (D-IA) named a new staff director for the Senate HELP Committee. Mildred Otero will take over the position left vacant by Bethany Little's departure.

- **Brown Joins Webb and Other Senate Dems in Introducing Military and Veterans Education Reform Act**
  A new bill sponsored by Senator Jim Webb (D-VA) and cosponsored by Senators Tom Harkin (D-IA), Tom Carper (D-DE), Claire McCaskill (D-MO) and Scott Brown (R-MA), would require schools participating in educational assistance programs through both the Department of Veterans Affairs and Department of Defense to meet the same educational standards currently required for other federal funding.
- **Coons, Rubio, and Bingaman Join in Introducing American Dream Accounts Legislation**
  Senators Chris Coons (D-DE), Marco Rubio (R-FL), and Jeff Bingaman (D-NM) introduced the *American Dream Accounts Act* this week.
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  Representative Hansen Clarke (D-MI) introduced the "Student Loan Forgiveness Act of 2012" (H.R. 4170) last week.
- **CBO Examines Fair-Value Accounting and Federal Credit Programs**
  CBO released a report this week on Fair-Value Accounting vs. Federal Credit Reform Act (FCRA) Accounting.

The Administration

- **CFPB "Open for Business" on Student Loan Complaints**
  With much fanfare, including multiple press releases and communications from multiple federal agencies via multiple channels, the Consumer Financial Protection Bureau announced it was now taking complaints related to student loans.
- **New NY Fed Report on Student Loans**
  On its "Liberty Street Economics" blog, the New York Federal Reserved issued a useful report on student loans.

Industry News

- **New Data Shows Declining Entry-Level Wages, Regardless of Education Level**
  Whether high school graduate or college graduate, male or female, the inflation-adjusted wages for young workers new to the workforce were lower in 2011 than in 2000.
- **Alternative MBA Lending Program Drawing Attention**
  With a second deal in the UK, this time with Cranfield School of Management, the Prodigy Finance student lending program is starting to garner attention in major publications on both sides of the Atlantic.

Attachments

- **Board of Directors**
- **COHEAO Commercial Members**

COHEAO News

COHEAO's Perkins Task Force to Host Community Conference Call on Perkins Appropriations

Earlier this week, a draft letter was sent to COHEAO members to send to their representative(s) in the US House of Representatives regarding Perkins Loan appropriations. Please send this letter as soon as possible.

This week's letter is to elicit support for funding for the Perkins Loan Program, starting with making up the cancellations reimbursements and also requesting a capital contribution. It is designed to encourage individual Members of Congress to contact Rep. Denny Rehberg (R-MT), the Chairman of the Labor-HHS-Education Appropriations Subcommittee, to include funding for the Perkins Loan Program in the FY2013 spending bill. However, these official requests from Members of Congress are merely the first step in the appropriations process. Accordingly, they are an early part of our advocacy efforts, and the Perkins Task Force will be hosting a conference call on Monday, March 19 at 11:30 AM ET to discuss appropriations going forward.

We apologize for the late notice, but with the flurry of activity related to appropriations, we thought it is better to have this call sooner rather than later. Please join COHEAO Executive Director Harrison Wadsworth, Perkins Task Force Chair Nancy Paris, and Commercial Chair Karen Reddick for a call on Monday, March 19 at 11:30 AM ET. This call will outline COHEAO's advocacy plans going forward, particularly for appropriations, and it is open to all Perkins advocates, regardless of whether or not a member of the Perkins Task Force or of COHEAO. We hope you and your colleagues can join us on Monday. The call-in information is below:

Conference dial-in number: (805) 399-1000
Participant access code: 796289
Date and Time: Monday, March 19, 11:30 AM ET

The letter we are asking COHEAO members to send to their representatives is available online: http://www.coheao.com/wp-content/uploads/2012/03/FY2013-Perkins-Approps-request-House-for-Members.doc. Please send it to the House member who represents where you live as well as where you work and any other ones that you may happen to be in touch with. Especially for those who work at schools, send the letter to as many House members as you are able in your state. If possible, please send a copy to the Representative's legislative assistant in charge of education issues. A listing of House education staffers, listed alphabetically by Member of Congress, is also attached and available online on the COHEAO site: http://www.coheao.com/wp-content/uploads/2012/03/House-Ed-LAs-031512.pdf.

Additional information was provided in the COHEAO Spark, and please feel free to contact Wes (whuffman@wpllc.net) with any questions on contacting your representatives.

Registration to Open Soon for the COHEAO Mid-Year Conference

The COHEAO Agenda Committee met recently to continue work on putting together the program for the COHEAO Mid-Year Conference, which is scheduled for July 29-31 at the Ritz-Carlton Cleveland. Registration information for the conference will soon be posted to the COHEAO website.

The Agenda Committee has come up with some exciting ideas to supplement the traditional staples of COHEAO conferences and all indications are we are going to again have an exciting and dynamic agenda. However, as we are still in the early stages, the Agenda Committee would love to have your input. If you have a great idea for a conference session, or would like to join the COHEAO Agenda Committee, please contact Lori Hartung (lori.hartung@tbandl.com) or Wes (whuffman@wpllc.net).

David Stocker Named to COHEAO Board of Directors, Will Head CFPB Workgroup

David Stocker of Account Control Technology was named to the COHEAO Board of Directors this week. Stocker is replacing Lettie Clark who resigned from the Board in February.

Stocker is a Past President, longtime Board member, and longtime member of COHEAO. His legal expertise is a tremendous value to COHEAO and he will continue to lead our CFPB Task Group. We are extremely excited to see him return to the COHEAO Board of Directors, but also will miss Lettie. She is a tremendous advocate for students and a staunch supporter of COHEAO.

If you are interested in joining the CFPB Task Group, please contact Wes Huffman (whuffman@wpllc.net).

Reminder: COHEAO Scholarship Applications Due by March 31. Tell Your Students!

The 2012-2013 COHEAO Scholarship is now taking applications. An application and additional materials are available online. (If the link does not work with your email client, please visit www.coheao.org and click on the scholarship info in the middle of our homepage).

COHEAO will be awarding four $1,000 scholarships to qualified students from COHEAO member colleges for the 2012-2013 academic year. Applications must be postmarked by March 31, 2012. Additional eligibility requirements are listed below:

- **Applicants must be U.S. citizens;**
- **Applicants must attend a COHEAO Member School;**
- **Applicants must have a minimum GPA of 3.75 on a 4.0 scale;**
- **Only undergraduate students, who will be entering their sophomore, junior, or senior year in 2012-2013, are eligible to apply: freshmen and graduate students are not eligible;**
- **Only one scholarship per family per academic year will be awarded; and**
- **COHEAO members and their immediate family members are not eligible for COHEAO scholarships.**

Please share this information with your students and other appropriate offices. Additional information, including an application and FAQ document, is available on the COHEAO Scholarship Webpage and is also easily accessible via www.coheao.org.

COHEAO would like to again thank all who donated to our Scholarship Fund through silent auction donations and individual contributions. If you have any questions on the 2012-2013 COHEAO Scholarship, please contact Wes Huffman (whuffman@wpllc.net, 202.289.3910)

Financial Literacy Corner: 2012 National Financial Capability Challenge Launched

This week, the Administration announced the launch of the National Financial Capability Challenge. Here is how the administration describes the contest:

High school-aged students from across the country can test their knowledge about personal finance through the National Financial Capability Challenge and earn a chance to be recognized by the Obama Administration. The annual Challenge enhances students' financial capability by strengthening their understanding of saving, budgeting and investing, among other central personal financial concepts. The voluntary online exam is available to students now through April 13.

- Additional information on the National Challenge, both for high school students and educators, is available online: http://www.challenge.treas.gov/
- The press release announcing the launch of the challenge is available online: http://www.ed.gov/news/press-releases/obama-administration-challenges-students-teachers-and-parents-tackle-financial-l

The Congress

Senate Judiciary Subcommittee to Examine Bankruptcy Discharge & Student Loans

The Senate Judiciary Subcommittee on Administrative Oversight and the Courts announced it will convene a hearing on March 20, "The Looming Student Debt Crisis: Providing Fairness for Struggling Students." A witness list is below:

- The Honorable Jack Conway
  Attorney General for the Commonwealth of Kentucky
  Frankfort, KY

- The Honorable Lisa Madigan
  Attorney General for the State of Illinois
  Chicago, IL

- G. Marcus Cole
  Professor of Law
  Stanford University
  Stanford, CA

- Danielle Jokela
  Chicago, IL

- Deanne Loonin
  National Consumer Law Center
  Boston, MA

- Neal P. McCluskey
  Associate Director, Center for Educational Freedom
  Cato Institute
  Washington, DC

Though he is not the chairman of the subcommittee, Sen. Dick Durbin (D-IL) will preside over the hearing, which is not a surprise given that the its title references his legislation on this topic, the "Fairness for Struggling Students Act," S. 1102. Rumors are circulating that Durbin intends to mark-up the legislation in the weeks following this hearing.

The two attorney general witnesses, Kentucky's Conway and Illinois' Madigan, have been much more active on issues related to for-profit colleges. Madigan sued Westwood College and Conway is leading a group of 22 state AGs in investigating for-profit higher education. However, Madigan's office does offer a tip sheet for consumers on student loans. It is available online:
http://illinoisattorneygeneral.gov/consumers/student_loan_facts.pdf

Additional information on the hearing is available online:
http://www.judiciary.senate.gov/hearings/hearing.cfm?id=eb997a7c3376c76b36a041cf2a10ca10

Four Budget Resolution Options Expected This Session, Nothing Likely to Pass

The Senate was in session but the House of Representatives was out of town for a weeklong district work period the week of March 12th. A surprising level of activity that was at least nominally bipartisan took place. For instance, Majority Leader Harry Reid (D-NV) and Minority Leader Mitch McConnell (R-KY) came to agreement on approving 17 federal judges whose nominations had been languishing for months.

While some bipartisan action took place (in addition to the confirmation agreement, the Senate passed a big transportation bill, and the "JOBS Act," a measure aimed at small businesses and entrepreneurs), the comity did not extend to the debate on the FY2013 budget. The Senate has decided a budget resolution is unnecessary as the debt ceiling bill of last summer includes spending levels for 2013. But House Members disagree and are anxious to send an election year message that they are willing to make tough spending decisions.

The Budget Control Act averted a default on US debt obligations and set a cap on spending for 2013. However, the law doesn't require spending up to the cap, and many Republican House members want to spend less. House Budget Committee Chairman Paul Ryan (R-WS) will unveil a proposed budget next week that is likely to be several hundred billion below the $1.047 trillion figure set by the Budget Control Act. House Democrats, not to be outdone, also intend to introduce their own measure that will doubtless hit the agreed upon spending ceiling and also include tax provisions to increase revenues.

This scenario will leave the Congress with four different budget proposals—the President's, House Republicans, House Democrats and whatever is produced in the Senate. (Budget Committee Chairman still intends to mark up a budget even though it won't be considered by the full Senate.) Given the November elections, no one expects action on the budget until a lame duck session, likely to begin in late November, meaning the 112th Congress will need to wrap up its business with many important, controversial items with a long-lasting impact—a new budget, expiring tax cuts and the demands of sequestration via the Budget Control Act.

Reed, Courtney, and Students Rally for 3.4% Interest Rate Subsidized Stafford Loans

Senator Jack Reed (D-RI) and Rep. Joe Courtney (D-CT) held a rally on Capitol Hill this week where students delivered petitions to Congress aimed at averting the pending interest rate spike on subsidized Stafford Student Loans. The petition and rally effort, coordinated by US PIRG and others, led to 130,000 student signatures on the pending rate spike.

At the event, Reed and Courtney said it was illogical for student loans to have higher interest rates than mortgages. Both have introduced legislation to maintain the interest rate on subsidized Stafford Loans at 3.4 percent. Despite the comments on mortgages, neither bill touches unsubsidized Stafford Loans nor do they address how they will pay for the estimated $5.7 billion cost associated with keeping subsidized rates at 3.4 percent.

Rich Williams, a lobbyist for PIRG on higher education issues, said it is "offensive" to think interest rates would increase as prescribed by the College Cost Reduction and Access Act of 2007, which was passed to fulfill a 2006 campaign pledge by Congressional Democrats. The law phased down subsidized Stafford Rates over four years, but only kept them at half the previous rate for one year due to their high federal costs. Future Congresses were left to pass legislation keeping the rate at 3.4 percent for more than one year, something that they haven't been able to do whether Democrats or Republicans were in control.

House Education and the Workforce Committee Chairman John Kline's (R-MN) office reminded reporters that Republicans warned of dire consequences in 2007. In an email to the *Associated Press*, Jennifer Allen, Kline's spokesperson said, "[We] now face the exact predicament we expected: we must either allow interest rates to rise on student loans, or stick taxpayers with another multi-billion dollar bill."

Rep. Donald Payne: 1934-2012

News came March 5th of the passing of Rep. Donald Payne (D-NJ). Payne was a longtime member of the House Education and the Workforce Committee, taking a particular interest in financial literacy and increasing aid and support for minority students, among other education issues.

He was also well known on African issues, such as the official recognition of the genocide in Darfur, providing US aid for famine relief in the Sudan, and securing funding to assist with HIV/Malaria prevention. Payne was the first African American Congressman from New Jersey.

Payne's obituary from the *New York Times* is available online:
http://www.nytimes.com/2012/03/07/nyregion/donald-m-payne-first-black-elected-to-congress-from-new-jersey-dies-at-77.html?_r=1

Otero Named HELP Staff Director

Chairman Tom Harkin (D-IA) named a new staff director for the Senate HELP Committee. Mildred Otero will take over the position left vacant by Bethany Little's departure.

Otero recently served as a senior policy officer at the Bill and Melinda Gates Foundation, where she focused on federal advocacy, and college-readiness issues. Before that she worked as a senior advisor for US AID, focusing on education, youth, and social protection policy.

Otero holds a Master of Social Work from New York University. In 2003, she served as a Congressional Hispanic Caucus Institute Public Policy Fellow, working for then-Senator Hillary Rodham Clinton. She's also served as deputy director for early childhood development and as a legislative assistant for U.S. Sen. Jack Reed, D-R.I. And she was a senior policy adviser to Sen. Clinton for education and children's issues until 2009.

Brown Joins Webb and Other Senate Dems in Introducing Military and Veterans Education Reform Act

The "Military and Veterans Educational Reform Act of 2012," sponsored by Senator Jim Webb (D-VA) and cosponsored by Senators Tom Harkin (D-IA), Tom Carper (D-DE), Claire McCaskill (D-MO) and Scott Brown (R-MA), would require schools participating in educational assistance programs through both the Department of Veterans Affairs and Department of Defense to meet the same educational standards currently required for other federal funding.

The following are highlights of the bill identified in the sponsors' press release:

- *Expands the training responsibilities of the State Approving Agencies by requiring them to conduct outreach activities to veterans and members of the Armed Forces, to conduct audits of schools, and to report those findings to the Secretary of Veterans Affairs.*

- *Requires the Secretary of Veterans Affairs and the Secretary of Defense to develop a centralized complaints process to report instances of misrepresentation, fraud, waste, and abuse, and other complaints against educational institutions.*

- *Requires that all schools with 20 or more students enrolled in VA and/or DOD educational assistance programs provide support services to veteran and military students.*

- *Requires the Department of Veterans Affairs and Department of Defense, to the extent practicable, to provide one-on-one, in person educational counseling to veterans and members of the Armed Forces participating in programs of educational assistance at or before the individual enrolls.*

- *Requires the Secretary of Veterans Affairs and the Secretary of Defense to conduct a compliance review of an educational institution whenever certain quality measures are triggered.*

- *Increases the transparency of educational institutions by requiring them to disclose graduation rates, default rates, and other critical information to potential students to ensure that they can choose the best academic program for their needs.*

- *Increases interagency coordination by requiring the Department of Veterans Affairs, the Department of Defense, and the Department of Education to improve information sharing.*

- *Requires that all programs receiving funding from Tuition Assistance and Post-9/11 G.I. Bill be "Title IV" eligible, which is already a requirement for schools receiving other types of federal funding. Title IV eligibility requires, among other things, accreditation by a Department of Education-approved accrediting agency, new schools to have an undergraduate withdrawal rate*

> *for all students of no more than 33%, and mandated reviews by the Department of Education if a school has high dropout or default rates, which could lead to sanctions or other penalties.*

Additional information on the Military and Veterans Education Reform Act is available online: **http://webb.senate.gov/newsroom/pressreleases/2012-03-08.cfm**

Coons, Rubio, and Bingaman Join in Introducing American Dream Accounts Legislation

Senators Chris Coons (D-DE), Marco Rubio (R-FL), and Jeff Bingaman (D-NM) introduced the *American Dream Accounts Act* this week. The following is an excerpt from the description of the legislation from Sen. Coons' website:

> *The American Dream Accounts Act authorizes the Department of Education to award three-year competitive grants to innovative partnerships that leverage college savings accounts and the power of the Internet to provide comprehensive support, guidance, and direction for low-income students as they plan for their college education. Organizations such as local education agencies, charter schools, or entities with experience in educational savings are eligible to apply for funds to establish and administer American Dream Accounts.*
>
> *Specifically, grant recipients would be required to:*
>
> - *Establish American Dream Accounts (ADAs), personal online accounts for low-income students that monitor higher education readiness and include a college savings account. ADAs would follow students from school to school and through college. Parents would grant vested stakeholders (including counselors, teachers, coaches, mentors, and others) access to the account to update student information, monitor progress, and provide college preparatory support.*
> - *Open college savings accounts for students. Every ADA would include a college savings account for each student. Grantees that can provide these accounts with seed money would be prioritized.*
> - *Support college readiness by securely monitoring students' progress online. Academic and behavioral information, including grades and course selections, progress reports, and attendance and disciplinary records would be available for review in an ADA, which would also provide opportunities to learn about financial literacy, prepare for college enrollment, and identify skills and career interests.*
> - *Collect data about effective ways to assist high-risk students in planning for college through a comprehensive monitoring and evaluation system.*
>
> *In order to meet these objectives, the American Dream Accounts Act utilizes existing Department of Education funds, meaning it comes at no new cost to taxpayers.*

The bill is another sign of bipartisanship on issues at the intersection of higher education and consumer finance or consumer information. In addition to Sen. Scott Brown (D-MA) signing onto Sen. Webb's veteran and military education legislation, Rubio is also a cosponsor of Sen. Ron Wyden's (D-OR) "Know Before You Go" bill and Rep. Duncan Hunter (R-CA) has introduced companion legislation in the House. (S. 2098/H.R. 4061)

Additional information on the bill, including the legislative text, is available from Coons' website: http://www.coons.senate.gov/issues/dreamaccounts/

Clarke Introduces "Student Loan Forgiveness Act of 2012"

Representative Hansen Clarke (D-MI) introduced the "Student Loan Forgiveness Act of 2012" (H.R. 4170) last week. This bill would forgive outstanding student loan debt for Americans who have made payments equal to 10 percent of their discretionary income for 10 years. Clarke said in a House speech that forgiving federal student loan debt would stimulate the economy and create jobs.

The legislation would amend the Higher Education Act of 1965 by giving borrowers the option to enter the 10/10 loan repayment plan. Borrower's discretionary income will be defined as any annual income exceeding 150 percent of the poverty line for an individual or family. This bill would also allow graduates who enter public service professions to have their loans forgiven in five years instead of 10 as well as cap interest rates on federal loans at 3.4 percent.

H.R. 4170 has yet to be scored by CBO, but it would undoubtedly have an incredibly high price tag. The legislation does include a "pay-for," but an incredibly vague one. Clarke proposes to pay for the bill through reductions in the Defense Department's "Overseas Contingency Operations" fund, the money currently supporting operations in Iraq, Afghanistan, and Pakistan.

Though the bill is popular among students on Facebook and Twitter, it has very little chance for passage because of its expected high cost. Clarke has also indicated he intends to introduce another student loan bill, a "Borrowers Bill of Rights," which would restore bankruptcy dischargeability for education loans, among other things.

Additional information is available online: http://hansenclarke.house.gov/press-release/rep-hansen-clarke-introduces-student-loan-forgiveness-act-2012-hr-4170

CBO Examines Fair-Value Accounting and Federal Credit Programs

CBO released a report this week on Fair-Value Accounting vs. Federal Credit Reform Act (FCRA) Accounting. Below are some highlights from CBO.

FCRA Treatment Does Not Give a Comprehensive Accounting of Federal Costs
The Federal Credit Reform Act of 1990 (FCRA) requires the costs of credit assistance to be measured by discounting—using rates on U.S. Treasury securities—expected future cash flows associated with a loan or loan guarantee to a present value at the time of disbursement.
In CBO's view, FCRA-based cost estimates do not provide a full accounting of what federal credit programs actually cost the government because they do not incorporate the full cost of the risk associated with the loans.

Fair-Value Accounting Provides a More Comprehensive Measure of Federal Costs
Fair-value accounting recognizes market risk—the component of financial risk that remains even after investors have diversified their portfolios as much as possible, and that arises from shifts in current and expected macroeconomic conditions—as a cost to the government. To incorporate the cost of such risk, fair-value accounting calculates present values using market-based discount rates. Thus, fair-value estimates often imply larger costs to the government for issuing or guaranteeing a loan than do FCRA-based estimates.

Using FCRA-based estimates instead of fair-value estimates has important consequences for the way policymakers might perceive the cost of credit assistance:

- *The costs reported in the budget are generally lower than the costs to even the most efficient private financial institutions for providing credit on the same terms;*
- *The budgetary costs are almost always lower than those of other federal spending that imposes equivalent true costs on taxpayers; and*
- *Purchases of loans at market prices appear to make money for the government and, conversely, sales of loans at market prices appear to result in losses.*

Fair-Value Accounting Has Challenges

- *Government agencies would incur training expenses and the cost of developing new valuation models.*
- *Fair-value cost estimates would be somewhat more volatile, although factors that also affect FCRA estimates would continue to be the main cause of volatility.*
- *Fair-value estimating would require analysts to make additional judgments that could introduce inconsistencies in how costs of different programs are evaluated.*

The full report is available online: **http://www.cbo.gov/publication/43027 /**

The Administration

CFPB "Open for Business" on Student Loan Complaints

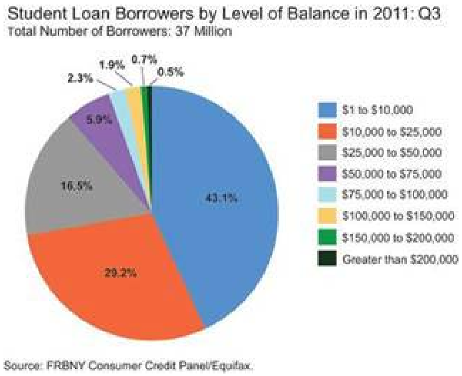
With much fanfare, including multiple press releases and communications from multiple federal agencies via multiple channels, the Consumer Financial Protection Bureau announced it was now taking complaints related to student loans. The Department of Education "cross-posted" the CFPB blog post and press release on the new complaint intake system.

The new system was also announced with a letter to financial aid administrators from Rohit Chopra. Numerous media outlets picked up on the announcement, generating numerous articles encouraging readers/listeners/watchers to contact the CFPB if they have an issue with their private student loan.

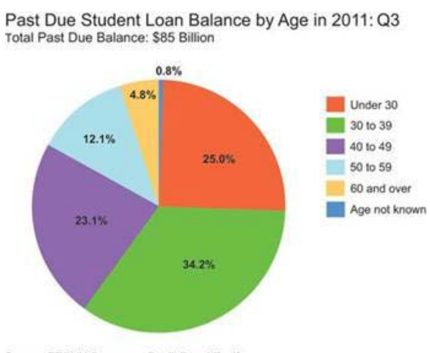
- To view the CFPB blog post, visit: **http://www.consumerfinance.gov/blog/our-student-loan-complaint-system-is-open-for-business/**
- To view the CFPB press release, visit: **http://www.ed.gov/news/press-releases/consumer-financial-protection-bureau-now-taking-private-student-loan-complaints**
- To view the letter to financial aid administrators, visit: **http://files.consumerfinance.gov/f/201203_cfpb_letter-to-fin-aid-admins.pdf**

New NY Fed Report on Student Loans

On its "Liberty Street Economics" blog, the New York Federal Reserved issued a useful report on student loans. The report, released the same week other New York Fed data indicated student lending was driving increases in consumer credit, showed some alarming data on delinquency, or at least non-payment, rates, as well as the demographics and debt levels of borrowers. Excerpts from the report are below:



How much difficulty are borrowers having paying back their debts? Of the 37 million borrowers who have outstanding student loan balances as of third-quarter 2011, 14.4 percent, or about 5.4 million borrowers, have at least one past due student loan account. Together, these past due balances sum to $85 billion, or roughly 10 percent of the total outstanding student loan balance. To put this in perspective, the same 10 percent rate applies on average to other types of household delinquent debt, including mortgages, credit cards, and auto loans. Does this mean that the prospects for student loan delinquencies are similar to those for the household debt in general, and thus no special attention is warranted? (See chart below.)



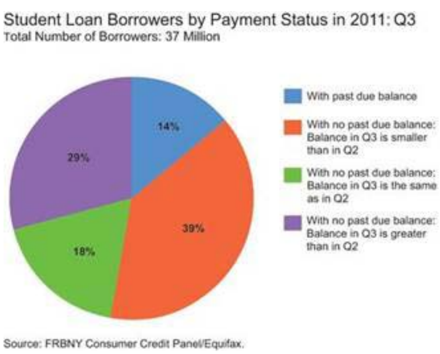
Unfortunately, this is not the case—some special accounting used for student loans, not applicable to other types of consumer debt, makes it likely that the delinquency rates for student loans are understated. In the case of federally backed loans, which represent a majority of total lending, repayment is deferred until the student graduates from school and can then be pushed back by another six-month grace period. How do these student loans in deferment or grace periods show up on credit reports and contribute to the delinquency statistics?

Given that no payment is necessary until graduation, these deferred student loans are not included in the past due balance but they are included in the total balance from which the delinquency rate is derived. This may help explain the low proportion (12.6 percent) of borrowers with past due student loans among those under thirty years old, compared with 16.9 percent among those between the ages of thirty and thirty-nine, since many of the younger borrowers are still in school and don't yet have to make any payments.

To address this potential bias in calculating delinquency statistics, we exclude individuals who appear to be temporarily exempt from making payments because they are in school or newly graduated from *school. These are students who, as of third-quarter 2011, owed as much as or more than they did in the previous quarter while maintaining a zero past due balance. We will be able to make our inference more precise when loan-level panel data are available, but this is our first-cut analysis given the available data. We warn that there is room for misclassification in this analysis. For example, there could be borrowers who are subject to the income-based repayment plan whose payment fell short of the accrued interest, resulting in a balance that increased. Recall that this exercise looks at the student loan borrowers who have a balance as of third-quarter 2011; therefore, those who had taken out a loan at one point but paid it off before third-quarter 2011 are not accounted for.*

From this exercise, we find that as many as 47 percent of student loan borrowers appear to be in deferral or forbearance periods, and thus did not have to make payments as of third-quarter 2011. Specifically, 17.6 percent of borrowers had exactly the same balance in the third quarter as in the second quarter of this year, and 29.1 percent increased their overall student loan balance by taking on new originations or accruing interest to the balance.

We then recalculate the proportion of borrowers with a past due balance excluding this group of borrowers. We find that 27 percent of the borrowers have past due balances, while the adjusted proportion of outstanding student loan balances that is delinquent is 21 percent—much higher than the unadjusted rates of 14.4 percent and 10 percent, respectively (see charts below).



For the full report, see: **http://libertystreeteconomics.newyorkfed.org/2012/03/grading-student-loans.html**.

Industry News

New Data Shows Declining Entry-Level Wages, Regardless of Education Level

Whether high school graduate or college graduate, male or female, the inflation-adjusted wages for young workers new to the workforce were lower in 2011 than in 2000, reflecting the wage erosion during the recession and over the prior business cycle, according to data analyzed by Lawrence Mishel, president of the Economic Policy Institute (EPI), and released last week

The data show lower wages for entry-level workers across education groups between 2000 and 2007, with steep declines between 2007 and 2011. A table from EPI is below:

Hourly wages of entry-level workers by education, 1973–2011 (2011 dollars)

EDUCATION	HOURLY WAGE							PERCENT CHANGE				
	1973	1979	1989	1995	2000	2007	2011	1979–1989	1989–2000	2000–2007	2007–2011	1979–2011
*High school**												
Men	$15.92	$15.64	$12.59	$11.67	$12.82	$12.70	$11.68	-19.5%	1.8%	-0.9%	-8.0%	-25.3%
Women	$11.66	$11.56	$10.30	$9.96	$10.93	$10.23	$9.92	-10.8%	6.1%	-6.4%	-3.1%	-14.2%
*College***												
Men	$21.11	$20.61	$21.07	$19.51	$23.47	$22.88	$21.68	2.2%	11.4%	-2.5%	-5.2%	5.2%
Women	$17.69	$16.30	$18.34	$17.95	$20.00	$19.67	$18.80	12.5%	9.0%	-1.6%	-4.4%	15.4%

* Entry level wage measured as wage of those from 19 to 25 years of age.

** Entry level wage measured as wage of those from 23 to 29 years of age.

Source: Forthcoming Mishel, Bivens, Gould, and Shierholz, *State of Working America 2012-2013*; Economic Policy Institute

"Young workers' prospects are a barometer of the strength of the labor market and their misfortune reflects the very disappointing wage growth for all workers, college and high school graduates alike, in the last decade," said Mishel.

Additional information and analysis from EPI is available online:
http://www.epi.org/publication/ib327-young-workers-wages/

Alternative MBA Lending Program Drawing Attention

With a second deal in the UK, this time with Cranfield School of Management, the Prodigy Finance student lending program is starting to garner attention in major publications on both sides of the Atlantic.

With the market for loans to international students drying up, particularly for those unable to find a suitable cosigner, Prodigy Finance uses a different underwriting model than traditional financial institutions and allows alumni to fund loans to incoming students. Here is how it is described by *Businessweek:*

The company's platform allows alumni, the university, and friends of a participating school to invest in students by placing their money in community education bonds. The loans carry an average 8.2 percent interest rate, making them competitive with other loan providers in the U.S. and Europe, and students are required to repay them within seven years. So far the program has not had a single default, Stevens said.

Unlike traditional banks, which lend money to students based on their previous income and work history, Prodigy's model uses a "predictive scorecard" to assess a student's future earning potential, using data provided to the company by the school's career services office, said Stevens. Investors, who can expect a 6 percent return on their investment, are provided with the names of the students they invest in, along with a brief bio.

The program, an alternative peer-to-peer style system for graduate business schools, was developed by three INSEAD alumni and counted the university as its first client. In the months since, both Oxford (via the Said Business School) and Cranfield have signed on, and the company is planning to expand. Cameron Stevens, a co-founder and CEO, informed *Businessweek* the company has raised $25 million and has plans to raise $150 million by the end of the year. According to the article, Prodigy Finance has plans to enter the US market in June.

For additional coverage from the *Financial Times*, visit: **http://www.ft.com/intl/cms/s/2/283e7e36-6169-11e1-94fa-00144feabdc0.html#axzz1oHxiAyg5**
For additional coverage from *Businessweek*, visit: **http://www.businessweek.com/articles/2012-03-05/mba-loans-from-an-unusual-source-alumni**

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