State of Connecticut
Post-Secondary Education Financing Working Group
Findings & Recommendations

House Bill No. 5610

Public Act No. 21-62

Rep. Jason Doucette, co-chair Jeanette W. Weldon, co-chair

January 25, 2022

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Establishment of Working Group and Membership

The Post-Secondary Education Financing Working Group “(Working Group”) was established with the passage of Public Act 21-62, during the 2021 Legislative Session of the Connecticut General Assembly.

Acknowledgments

We would like to acknowledge the members of this working group who volunteered their time and knowledge to the group. They also provided the necessary information to provide the recommendations of the group. Report prepared by staff Dawn Marzik, Zani Imetovski, Christopher Calabrese and Audrey Rossignol.

Auth	Appointer	Specific Qualifications	Appointee
SPRO	Sen. Looney	a representative of a Connecticut Bank	Frederick Good, Citizens Bank
SPKH	Rep. Ritter	a member who shall represent the interests of student loan borrowers	Cristher Estrada-Perez of Hartford
SMAJ	Sen. Duff	a member who shall represent the interests of student loan borrowers	Seth Frotman of Arlington, VA, Student Borrower Protection Center*
HMAJ	Rep. Rojas	a representative of a CT credit union	Bruce Adams of West Hartford
SMIN	Sen. Kelly	a representative of an institution of higher education in this state	NO APPOINTMENT
HMIN	Rep. Candelora	a representative of an institution of higher education in this state	Julie Savino, Sacred Heart University
CHR		Senate Chairperson, Banking Committee	VACANT
CHR		House Chairperson, Banking Committee	Rep. Jason Doucette
RM		Senate Ranking Member, Banking Committee	Did not participate
RM		House Ranking Member, Banking Committee	Rep. Thomas Delnicki
OTH		Banking Commissioner, or designee	Commissioner Jorge Perez and Matthew Smith, CT Department of Banking
OTH		Executive Director of the Connecticut Higher Education Supplemental Loan Authority, or designee	Jeanette W. Weldon, Executive Director and Josh Hurlock, Assistant Director, CHESLA

*Seth Frotman left his position as Executive Director of Student Borrower Protection Center (SBPC) shortly after appointment and SBPC staff Winston Berkman-Breen and Kat Welbeck participated in the Working Group in his absence.

Working Group Charge:

STATE OF CONNECTICUT

QUI TRANSTULIT SUSTINET

House Bill No. 5610

Public Act No. 21-62

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. (*Effective from passage*) The Connecticut Higher Education Supplemental Loan Authority shall study (1) the feasibility and implications of expanding access to its loan programs to student loan borrowers including, but not limited to, persons who have a high debt-to-income ratio, low credit score or insufficient credit history and persons who have been previously denied a loan, (2) the underwriting standards used by other student loan lenders for public and private student loan products, and (3) the differences between the interest rates and pricing of such student loan products and the student loan products offered by the Connecticut Higher Education Supplemental Loan Authority. Not later than January 1, 2022, the Connecticut Higher Education Supplemental Loan Authority shall, in consultation with the working group established pursuant to section 2 of this act, submit a report, in accordance with the provisions of section 11-4a of the general statutes, to the joint standing committee of the General Assembly having cognizance of matters relating to banking concerning the findings of such study.

Identifying the Problem (excerpts from presentation at October 12, 2021 meeting):

"America's college financial-aid system has helped millions of students obtain a postsecondary education, but the system's flaws are increasingly apparent. Growth in tuition and fees outpace available resources, particularly for students striving to rise out of poverty. Low- and middle-income students confront frightening levels of education debt. Our financial- aid system, built in a different era for a different demography and continually expanded over the years, must adapt to address current college affordability challenges."
-Using Existing Resources to Ensure College Affordability for Low and Middle-Income Families, The Education Trust, February 2013

In 2014, only 10% of dependent family members who said they'd received a college degree came from families in the lowest income quartile. On the other hand, 54% of bachelor's degrees awarded to dependent family members came from the highest income quartile.
-Pell Institute for the Study of Higher Education, University of Pennsylvania, 2016

Low-income borrowers were more likely than their wealthier counterparts to be in default or delinquent on their debts, the Federal Reserve Bank of New York found in a 2016 report. Multiple experts have also found that women and minority borrowers struggle more than their white, male colleagues to pay off their loans. What's more, student debt may actually be contributing to wealth inequality, the NY Fed concluded.
- Liberty Street Economics, New York Federal Reserve, August 1, 2016

In 2015, students from poorer families were struggling much more to pay back their debts than their wealthier counterparts. Students from the poorest quartile of families who started school in the 2003-2004 academic year still owed 91% of the debt they borrowed 12 years after entering school on average. Students from the wealthiest families owed 59%, the report found. The role of student loans in weighing down household balance sheets combined with repayment struggles indicate that student debt could be a factor in growing inequality.
- National Center for Education Statistics, 2017

"While student debt may not intuitively register as something that plagues the poor, student debt delinquency and defaults are concentrated in low-income areas, even though lower-income borrowers also tend to have much smaller debts. Low-income students are often left at a dramatic academic disadvantage in the first place. For example, students who work full-time on top of college classes can't cover the cost of tuition or living expenses and working while in school can actually shrink the chance of graduating altogether. Moreover, these students are less likely to have access to career counseling or outside financial resources to help them pay for school, making the payoff negligible at best. The inequity is so crushing that an alarming number of these students—predominantly students of color—are dropping out of school altogether. One-third of low-income student borrowers at public four-year schools drop out, a rate 10 percent higher than the rest of student borrowers overall."
-Why Student Loan Debt Harms Low-Income Students the Most, TalkPoverty.org, May 1, 2016

Question: Does lack of access to affordable financing options for low-income borrowers in Connecticut contribute to these problems and if so, what can we do to help?

What the Data Says in Connecticut and Possible Solutions

College affordability is a broad issue that encompasses a range of factors including:

- The type of post-secondary education that an individual is seeking (e.g. certificate programs, associates or bachelor's degree, residential setting or commuter, public or private university);
- The cost of each option; and
- Available financing tools (e.g. school aid, scholarships, federal loans, private loans from for profit or non-profit providers)

The range of available financing tools offers the opportunity to match the right tool with each individual student's needs. For low income students that might mean focusing first on grants and scholarships. Any debt should be manageable and affordable—so that rather than focusing solely on access to loans, consideration is given to the students' ability to repay post-graduation so that their financial stability is not jeopardized.

CHESLA is the state's student loan provider. As a self-supporting non-profit entity, CHESLA seeks to offer Connecticut students and families student loans at very competitive rates. CHESLA funds its loans using proceeds from bonds it issues in the public debt markets. Debt service payments on those bonds must be made from repayments received on the student loans. This limits CHESLA's flexibility regarding its loan underwriting criteria. Data from CHESLA's loan portfolio indicates that there is some overlap in approved/denied loans by town and income level, however the largest cities rank high on the denied list but not high on the approved list. Approximately 70% of approved loans are for families with income levels of $50,000 - $150,000, while approximately 64% of denials were for families with income levels in the $20,000 - $100,000 range. CHESLA offers a financial aid outreach program to all high schools in the state with a goal of educating students and families on their options for student aid and the working group acknowledged the general need for greater financial literacy education.

CHESLA's ability to relax its underwriting criteria could be enhanced by access to state funding for its student loans. This is the case with the Alliance District Teacher Loan Subsidy Program which is in the process of implementation.

It was noted that the federal student loan market share is somewhere between 85-92% of total student loans, however the remaining 8-15% in private debt may be more expensive and is still significant, affecting household budgets. In CT academic year 2019-20 approximately $1.1 billion in loans was borrowed. There was limited data provided to the working group on debt provided by private, for-profit lenders such as banks and no data specifics were provided by national proprietary lenders such as Sallie Mae. Data shows community colleges and for-

profit private schools and occupational schools have the highest default rates. CT private schools with large endowments like Yale and Wesleyan with the lowest default rates. In 2018-19, 56 percent of Connecticut college graduates had student loan debt. 35 percent of Connecticut college graduates' student loan debt was private, nonfederal debt. Private, nonfederal debt may be costlier and may not offer some of the borrower benefits offered by the federal program, e.g. public service loan forgiveness or income-based repayment. The average debt load of a Connecticut college graduate in 2018-2019 was $38,546 placing the state as the third highest nationally. Additionally, Connecticut ranks 48th in the nation in the income-adjusted to student debt ratio.
- *Student Debt for College Graduates in Connecticut, The Institute for College Access and Success, TICAS.org, 2020; Education Data Initiative, November 2021*

As we look at what policies and resources Connecticut can implement to spearhead the student debt crisis, we must first understand the level of debt and the level of risk these debts hold for the majority of Connecticut residents. Over the past 20 years, total non-federal aid obtained by students has increased by over 15%. In total, Connecticut residents hold 17.1 billion dollars in student loan debt. 58 percent of this debt is held by residents under the age of 35 and a significant amount of this debt and delinquent debt, is held by Black, Hispanic and first-generation residents.
- *Student Debt for College Graduates in Connecticut, The Institute for College Access and Success, TICAS.org, 2020; U.S. Department of Education data as of June 30, 2020*

The Working Group discussed the **College Access and Success (TICAS)** report recently released on average debt (including federal, private non-profit and private for-profit debt) for the class of 2020:

Key Takeaways from the report include:

- CT Ranks high in average student debt levels and states in the northeast generally rank high on a national scale.
- Borrowing rates have remained flat over the last decade while the private student loan market has grown rapidly.
- COVID-19 is possibly disproportionately impacting low-income student borrowers
- The average amount of debt for a CT graduate in 2020 was $35,853
- 57% of CT graduates have debt
- The average private loan total for CT graduates with debt in 2020 was $47,021

The report's State Level Recommendations include:

- Allocate available state grant aid based on need rather than merit
    - (Note: There were sharp declines in need-based aid in CT over the last decade, while merit-based aid has mostly stayed flat and as a result Connecticut ranks low among the states in overall state grant aid).
- Exempt forgiven amounts of federal student loans from state income tax

- Set Institutional Accountability Standards for schools that receive state grant aid
- Develop or improve state-level longitudinal data systems
- Promote awareness of income-driven repayment plans
- Require colleges within the state to adopt strategies that will help reduce the burden of student debt

Members noted that the increase in borrowing disproportionately affecting college unaffordability for undocumented / DACA / students of color / low income students is important to consider and spoke to promoting awareness of income driven repayment plans and echoed the importance of grant aid based on need rather than merit. Members noted CT ranking 5th in average debt and CT's low ranking (43rd) in need-based aid as percentage of overall state funding for higher education.

There was some discussion about how much of this data is for 4-year bachelor graduates but does not include associate degrees or students who do not complete school. These students are more likely to lack the ability to pay off debt.

Despite the discussion of CHESLA's portfolio during the prior meeting and of reports on student loans that use national and state level data, such as the report by TICAS, Working Group members have been unable to review and discuss comprehensive and Connecticut-specific data on private student lending, because no such database exists. Available data generally extrapolate from available credit report data or represent only one segment of the market, as with CHESLA. Members discussed that through the state's licensure of private student loan servicers, it may be able to obtain an accurate snapshot of private student loan debt in Connecticut, but that the state generally lacks information about this market, especially relative to other regulated markets, such as mortgage lending.

The New York State "Get on Your Feet Program", which is an income-driven repayment program, was presented to the working group as a model of a potential solution:

- It provides up to 24 months of federal student loan debt relief to recent NY college graduates who are participating in a federal income-driven repayment plan.
- Major Points of Eligibility (there are additional specifics such as being current on payments)
    - Resident of NY earning less than $50k a year
    - Graduated from a NY college or university after December 2014
    - Enrolled in an income-based repayment plan with the federal government at 10% of discretionary income. The Pay As You Earn Plan, or the Revised Pay As You Earn Plan
    - Plans are specific to those with high debt / low earnings
    - Must be employed in NY State
- The recipient receives a maximum of 24 payments equal to the amount of the monthly federal repayment plan payment as long as eligibility requirements are being met. Payments are made directly to the borrower's federal student loan servicers.

- The program is run by the NYS Higher Education Services Corporation (HESC)
- The program awarded $2 million to 1,925 students in 2018-19, which is lower than previous estimates.

Members noted that while the goals of such a program are admirable and are in keeping with the goals of the Working Group, there should be some caution in that the federal income driven repayment programs do not have a good track record with respect to loan forgiveness promised to borrowers.

Report on State Scholarship Programs

The Connecticut Office of Higher Education provided the working group with an overview of the Roberta Willis Scholarship program. It was noted that funding for these scholarships has been cut in half since its peak funding level of $64,047,950 in 2008 to $33,388,637 in 2021. This funding is split between “Need Based” and “Need-Merit Based” and there is a cap of 30% of total funding that may be allocated to Need-Merit. The Office of Higher Education raised the possibility of removing the statutory cap to potentially allow more funding for needy students, although there was some concern among working group members about the implications of doing that and the affect it would have on the Need Based side of the program.

Working Group Recommendations

***Recommendation 1* – Increase the overall level of funding of need based state aid including the Roberta Willis Scholarship Fund.**

The working group notes that funding has been cut dramatically over the last 14 years and ideally, subject to available state resources, should return to the 2008 levels. In any event, funding should be commensurate with the estimated need of Connecticut student loan borrowers relative to the cost of higher education in 2022. It is noted that Connecticut ranks relatively low among the states in need-based aid and this should improve.

***Recommendation 2*- Consider options for state supported loan or loan guarantee programs, perhaps including:**

- *An income driven repayment option patterned off the New York State program.*
- *An interest rate subsidy program for low income students through CHESLA;*
- *A public-private partnership/state guarantee loan program*

***Recommendation 3*-** Enhance opportunities and determine best access points for financial literacy education for students and families.

***Recommendation 4* –** Capture more of the available data on the private student lending industry, including portfolio volume and performance. Consider the creation of a lender registry, as several other states have done, as a method to access relevant data.

***Recommendation 5* –** More research is necessary on the drivers and causes of tuition increases and of the total price of higher education.