



SPRING CONFERENCE

Kansas City, Missouri

2003

Session 10

Alternative Loans: Filling the Gap

What are Alternative Loans?

- Alternative loans, also known as private education loans, can be used to bridge the gap between the cost of attendance and the financial aid package offered by the institution.
- Alternative Loans are offered by private lenders and do not require federal forms (e.g., the FASFA).

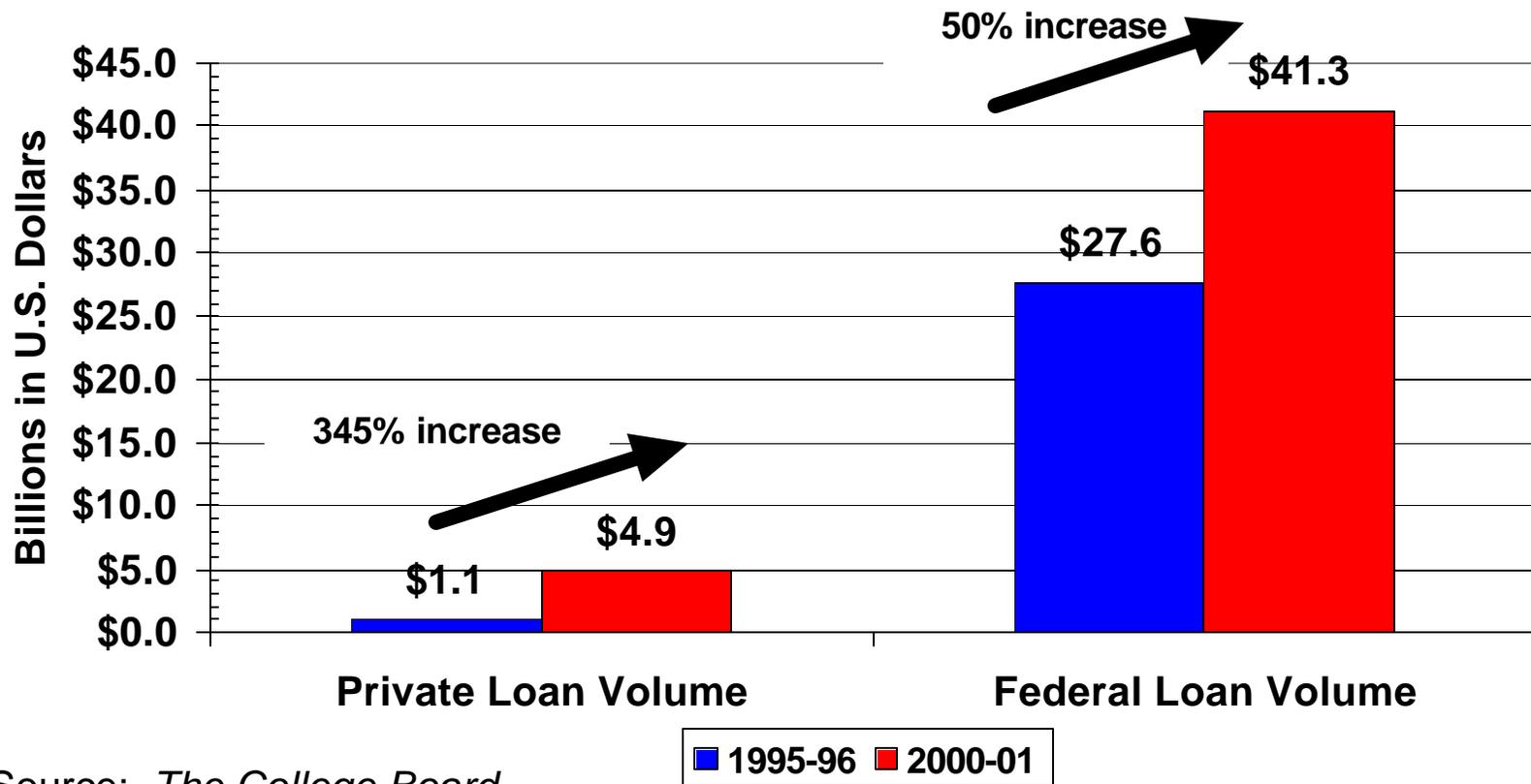
The History of Alternative Loans

- Alternative Loans have long been a part of the student financial aid equation.
- Alternative loans paved the way for much larger government sponsored-loans in the 1950s and 1960s.
- Over time alternative loans have increased in volume and diversity.

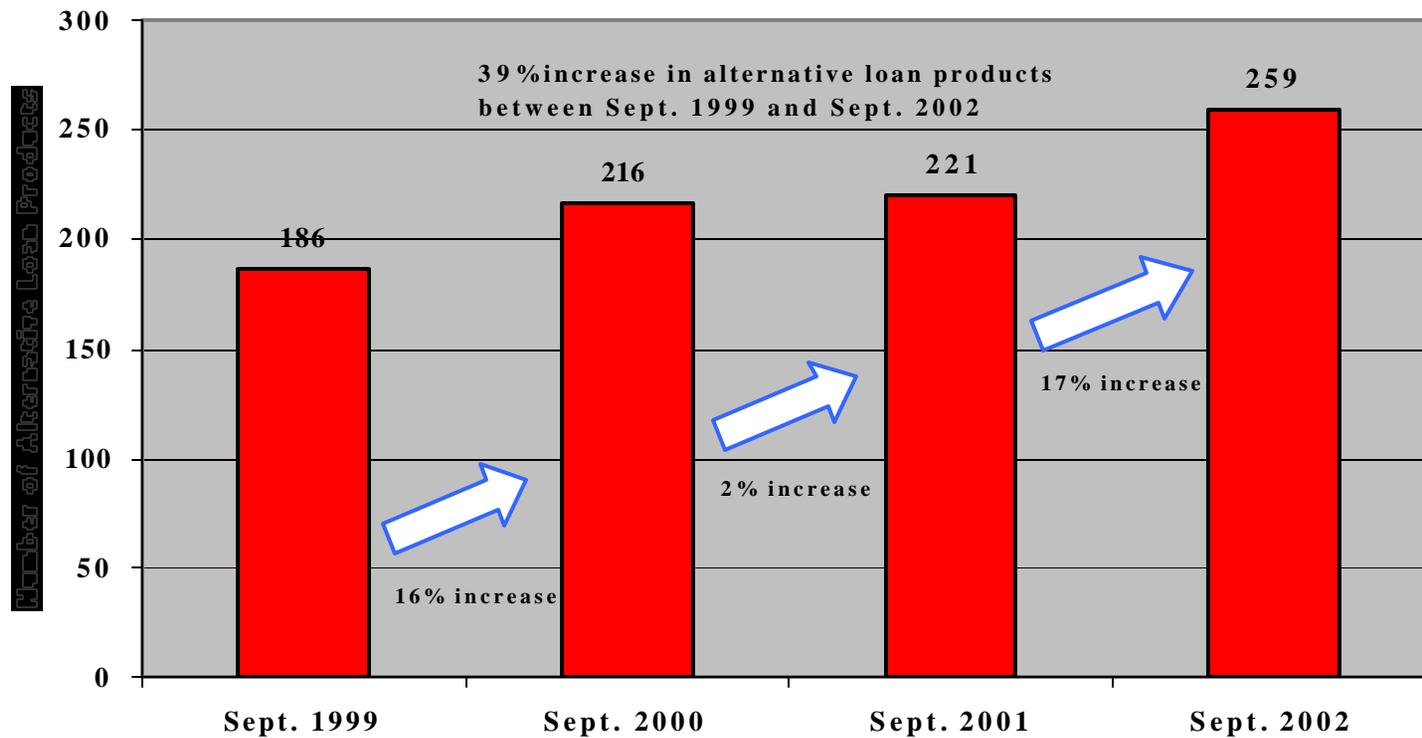
Why The Interest In Alternative Loans?

- Increased alternative loan volume at postsecondary institutions
- Expanding market of private lenders and alternative loan products
- Escalating costs of higher education
- Upcoming HEA reauthorization and discussions of federal loan limits

Loan Volume Growth 1995-96 to 2000-01



Alternative Loan Product Growth September 2001 to September 2002



Source: *The Greentree Gazette*

The Alternative Loans Project

The report seeks to answer the following questions:

- What types of alternative loans exist?
- What are the characteristics of the students who receive them?
- What role do alternative loans play in college student financing?

Sources of Data

Quantitative Sources

- NPSAS 2000 (and previous years of NPSAS data)
- *The Greentree Gazette*
- Web-based institutional data questionnaire

Qualitative Sources

- Regional focus groups with financial aid administrators
- Conference calls within various postsecondary sectors
- Institutional case studies

The Issues Being Raised

- Students' "blind" borrowing & increased student debt
- Reasons why students are obtaining alternative loans
- The "hot economy and money" are things of the past
- Risk of increased default rates, particularly on Title IV loans

Issues Cont.

- Parents' reluctance to take out PLUS loans and a shift in responsibility for financing postsecondary education
- Institutions becoming "ATMs"
- Increased private lender presence
- Alternative loan counseling

Policy Implications

- Should Federal loan limits be increased during the upcoming HEA reauthorization?
- Should the Federal Government take a more active role with regard to alternative student loans?

Contact Information

I appreciate your feedback and comments. I can be reached:

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A Little Bit about Penn State

2001-02 Annual Data

- Total Enrollment: 76,166
- Total Aid Recipients: 57,166 (75%)
- Total Aid Dollars: \$500,000,000.00
- Total Locations: 23
- Undergrad/Graduate/Medical/Law

How Penn State is Addressing Alternative Lending

A few years ago, we did not want to mention to students the option of Alternative Lending as a stop gap.

Now, we feel this is the only choice....

Cost of Attendance

- Prior to 2002-03:
 - Tuition increased between 4 to 5%,
 - Housing and meals increased between 4 to 5%
- In 2002-03:
 - Tuition increased by 13.5%
 - Housing and meals increased 8.5%
- In 2003-04, more to come....

First level of defense...

Encourage the PLUS option:

- 2000-01:
 - 5,648 borrowers
 - \$38,822,302.00
- 2001-02:
 - 6,235 borrowers
 - \$48,625,747.00
- 2002-03 (projected):
 - 6,921 borrowers
 - \$60,782,184.00

Is Bad Credit on the Rise?

Increase of PLUS Denials for Families:

- 2000-01: 2,173
- 2001-02: 2,475
- 2002-03: 2,601

Alternative Lending Volume

On the Rise:

- 2000-01:
 - 1,437 borrowers
 - \$6,949,169.00
 - 2001-02:
 - 2,124 borrowers
 - \$12,770,146.00
 - 2002-03 (to-date):
 - 4,595 borrowers
 - \$28,219,729.00
- | | |
|-------------------|--|
| Projected: | |
| - 4,950 borrowers | |
| - \$35,000,000.00 | |

Who are these Students?

A few facts about 2002-03 Alternative Loan borrowers:

- Almost 100% Undergraduate:
 - 94% Dependent
 - 6% Independent
- 77% Pennsylvania Residents
- Family income of \$72,000
- 15% are below a 2.00 Cumulative GPA

What are Solutions?

Work with your partners:

- Lenders
- Guarantors
- Negotiate terms and conditions
- Use your FFELP as leverage, if you need
- Facilitate a process that works for the school
- Advocate for your students

What does the future hold?

An increase in Federal Stafford Borrowing limits?

- Probably not.....
- An increase in alternative loan borrowing?
 - Most likely, yes...
- Will students default on these loans?
 - Too early to tell, but.....



Contact Us

We appreciate your feedback and comments. We can be reached:

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Thank You!



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