

MASFAA 2010 Annual Conference2

MASFAA Membership.....3

MASFAA Awards Committee...3

So You're Going to Have a Program Review?4

MASFAA Donor Development Committee5

State of Iowa Report5

Illinois State Report6

Minnesota State Report6

Ohio State Report.....7

Cap-and-Gown? Diploma? How About the Ideal Exit Counseling Package?.....8-9

Just for Fun9

Employment Opportunities and Student Loan Debt Burden 10-12

President's Message:

WELCOME FROM JIM BROOKS



Jim Brooks, University of Missouri Columbia
MASFAA President

Thanks for taking a few moments to read this edition of the MASFAA Moments newsletter. I know that everyone is busy since this is the summer processing season in financial aid. At one time or another we've all been asked the question, "what do you do during the summer months when students are gone?" and we've either chuckled or laughed deliriously, depending on our mental state at the time. Then we've explained that the summer months are not a vacation time for us. As financial aid professionals, this is when we push ourselves the most, log the longest days, and multi-task more than any other time of the year as we try to get all of the necessary processing done, so that when our students return to campus in the fall they don't experience delays with their financial aid. Along with this, some of you are working on the switch from the Federal Family Education Loan Program, to the Federal Direct Loan program, so you're juggling even more at this time. As the stress levels build, remember why we do what we do, and the impact we will have on our students' lives.

The past few months have been busy, but very exciting for me as I've been afforded the opportunity to visit with many of you while attending your spring state conferences. I have thoroughly enjoyed the time I've spent with you, and thank you for your hospitality, making me feel right at home. My visits have confirmed that we have a membership that is passionate about students and helping them obtain a post-secondary education. I've also found it very exciting to see the number of new financial aid administrators at the conferences. When moderators have asked attendees to indicate the length of time they've been in the profession, it's been great to see the number of individuals who have been in financial aid less than five years, and what's been ever more exciting, is to see how many of these individuals have already gotten involved in their state associations, and are interested in serving at the regional level as well. It's great to know that our profession continues to attract talented individuals who are stepping up to the plate, and ready to take the reins of leadership in the future.

The MASFAA board met in St. Louis in May. We had a full agenda as we discussed where we are as an association, how we serve our membership, and what we need to do to best serve our membership as we face a future where the only thing that is certain is that it will be ever changing and we need to be prepared. As we have all learned, even though certain things are "highly unlikely" they do occur. As we look towards the future of the association, we want to be sure that we've anticipated any of these unlikelihoods, and are prepared for them so that the association continues to remain strong.

MASFAA Moments is published quarterly with the purpose of providing a forum for communicating with members about issues affecting our profession as well as to inform members of the ongoing activity of MASFAA committees and the Executive Council.

Articles may be submitted by any person, committee, state association or organization. All submissions are subject to final acceptance and review by the editorial board prior to the publication of the newsletter. Submissions may be rejected, edited for content or edited for length. Articles must be intended for the benefit of MASFAA members and not for company marketing or promotional purposes.

Please send articles, photos and comments to:
Mary Jo Smith
Newsletter Committee Chair
maryjo.smith@usbank.com

President's Message — continued

By the time you read this, Al Hermsen and the members of the Research Committee will have asked you to complete a survey designed to assist the MASFAA leadership as we revisit our long range plan during the 2011 year. If you haven't yet completed the survey, I hope that you will take the time to do so. The MASFAA board went over the survey in detail during our May meeting, trying as best we could to tailor the survey to provide as much information as possible without it being overly intrusive, or taking too much of your time.

Also, we will have held our Summer Institute. We were not able to have a Summer Institute in 2009 due to the low number of registrants. While our numbers were down again this year, we took the opportunity to revisit how we offer the summer institute, and the result was a leaner and meaner offering that allowed a smaller group of registrants to have a more personal training experience.

Remember that while our annual conference may seem like a long way away, it will be here before you know it. The Local Arrangements Committee and the Program Committee have been hard at work pulling things together. We're excited about some of the speakers we have lined up, and think you will have a great time professionally and socially when you join us in Chicago in October.

As always, thanks for everything you do for our profession. Have a great summer!!

Regards,
Jim



MASFAA 2010 Annual Conference October 17-20, Hyatt Regency Chicago

We are online! Take a preview at the 2010 MASFAA Conference Mini-Site and the Tentative Program Schedule. The President, James Brooks also has a letter online specially inviting YOU to Chicago along with all the reasons why your institution would want to be represented despite budgetary constraints.

The interest sessions are cutting edge and the presenters have critical information to share with us as we soar through the many winds of change in administering financial assistance at our respective institutions. Whether you attend the MASFAA Annual Conference consistently or you have never been, we invite you to take advantage of the opportunity to network and discuss Best Practices with colleagues in your industry during this crucial time. For seasoned professionals, we have sessions targeting topics needed for a Financial Aid Director's Tool Kit. If you are at an institution in the Chicago area and you have new financial aid staff or staff changing to new responsibilities, the 2010 CORE Track for New Financial Aid Administrators promises to cover all the bases with fundamentals to preserving the integrity of student aid programs.

Concerned whether your financial aid advisors have the appropriate tools to administer Financial Literacy to your students? Concerned whether you are using your software product in the most efficient and effective way during transition to Direct Lending or Two Pell's in an Award Year? We have sessions just for you! Not to mention the much needed Federal Update and at least four sessions direct from the U.S. Department of Education.

Please plan to join us at the MASFAA conference in Chicago. We promise not to disappoint you or your operating budget!

MASFAA MEMBERSHIP

Kaye Caplinger Widney, West Virginia University
MASFAA Membership Services Chair

MASFAA membership continues to steadily increase and we are currently at 637 members. As we move toward two of our bigger membership events, i.e. MASFAA Summer Institute and annual MASFAA Conference, I fully expect our numbers will grow. Encourage your colleagues to consider membership in the association and active participation in our activities.

Please look for MASFAA Membership Survey coming from the MASFAA Research Committee. This will collect information about the services which you consider important for your association to provide and you are encouraged to share it with others who are not members. Your responses can help shape the organization as we move forward with strategic planning.

As always, if you have any questions regarding the membership process, please contact me at kaye.widney@mail.wvu.edu.

I'm looking forward to seeing you in Chicago in October!



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MASFAA AWARDS COMMITTEE

Wendy Hilvo, Cardinal Stritch University and **Michelle Curtis**, University of Wisconsin Madison; MASFAA Award Committee

"As we express our gratitude, we must never forget that the highest appreciation is not to utter words, but to live by them."
- John F. Kennedy

"Appreciation is a wonderful thing: It makes what is excellent in others belong to us as well"
-Voltaire

Pause for a moment and think of the last time that a colleague did something that exceeded your expectations. Truly, we are fortunate to be in an industry where graciousness and thoughtfulness are abundant. The shining stars among us serve as an inspiration to us all, and now, you have a chance to give back to those who have impacted you in a positive way. Please take a moment and think about the amazing people you interact with everyday, and nominate a deserving colleague for a MASFAA Award.

The MASFAA Awards committee is seeking your nominations for a number of awards– nominations take very little time: require less than 500 words – a few paragraphs at most – and you have the opportunity to have a profound impact on a fellow aid professional.

Your nomination can be e-mailed to michelle.curtis@fnaid.wisc.edu and will be kept confidential.

So You're Going to Have a Program Review?

by Rick Shipman, Michigan State University

Like seasonal allergies that arise with the spring flowers in the Midwest, federal program reviews are popping up in aid offices across the country. Striking fear in some and generating the same annoyance as a gnat at a picnic for others, federal program reviews are indeed serious events but with a little calm planning can be a valuable experience for all concerned.

So, how is an institution selected for a program review? There are several possible reasons: a) a high default rate, b) a high dollar amount in default, c) a significant change in your federal Stafford Loan or Pell Grant numbers from one year to another, d) a significant finding during annual audit, e) a high student dropout rate, or f) any other reason the Department of Education determines. Under this last category come things like unusual turnover in aid office administrators, high percent of professional judgments making students Pell Grant eligible, and simply to get a baseline reading for a school that hasn't had a recent review. My school fell under the last reason; we had not had a review in about 30 years so they thought it was time.

You are notified by calls from your regional program reviewers to your school's president and aid director. The call lets you know why they are coming, when they are coming, and what you are expected to provide in advance and during their review. They follow up the call with a letter that confirms all of this.

As the list of reasons above indicates, the review may focus on a particular area or may be more general. What you need to do in preparation depends in large part on the reason for their visit. For a more general review, they are going to be looking at your compliance with the rules governing Title IV financial aid. This extends far beyond the aid office at most institutions so it becomes a team effort to pull together all of the required materials. If you have been contacted for a program review, you will be told what you need to provide. If you haven't been contacted for a program review but believe you will be, you should read the information provided by the US Department of Education on IFAP: <http://www.ifap.ed.gov/programrevguide/attachments/2009ProgramReviewGuide.pdf>

In a standard review, you will be expected to demonstrate that you adhere to all of the general rules for institutional eligibility. Are you accredited? Do you admit any students who have not completed a high school program? If so, how do you qualify them? Are you in a secure financial position? Do you actually do what you tell prospective students you do? Do you distribute campus crime statistics annually? How do you track unofficial withdrawals? When do you release refunds of excess aid? Do you have compliant verification procedures and do you follow them? What is your Satisfactory Academic Progress policy? How do you provide student consumer information? They expect you to have policies and procedures or web page links or printed pages for all of these things and to provide them in advance of their arrival on campus. Beyond that, you'll likely be asked for your most recent school program catalog and course listing along with all locations at which you deliver instruction.

Of course, they will want a listing of federal aid recipients that meet certain criteria and from this they will identify a group for whom they want detailed records to use for their sample analysis.

In addition to all of these materials, we were asked to have representatives from Financial Aid, Registrar, Admissions, Business Office, and Provost present for the required entrance interview with the program reviewers. We added some additional people we thought should be at that meeting, including our internal auditor. Then, during the review, they had us arrange individual meetings with these and other university representatives.

The majority of questions they raised in our review were focused in 3 areas: 1) Satisfactory Academic Progress, 2) walk-away or unofficial withdrawals, and 3) the checks and balances between awarding and disbursing aid. We found the discussion to be helpful in understanding how the federal government interprets school requirements in these areas and how we could change what we are doing to be more effective in meeting those requirements. I will note that we had no findings in the end but that we have changed some practices as a result of the input from our program reviewers.

So, if you hear that the federal program reviewers are headed your way, don't despair. Don't panic. And don't go on vacation or put in for early retirement! Think about what a good job you do in stewarding the federal student aid programs and look at this as an opportunity to demonstrate that to knowledgeable people. Make sure to invite your boss to both the entrance and exit interviews so he/she understands that administering Title IV aid isn't just about the aid office but about the institution. Hey, maybe you'll end up getting more resources as a result!



MASFAA Donor Development Committee

by **Jayne Dinse**, South Central Technical College
Chairperson

As details are being finalized for the upcoming MASFAA Conference in Chicago, so are the opportunities for our MASFAA Associate Members to get involved.

2010 MASFAA Conference Exhibit Information: Exhibit fee will be \$1800 with the opportunity to have an advertisement in our on-line conference program for those who respond by August 15th. Exhibitors will be placed in the Crystal Ballroom where our opening/general sessions, breaks and meals will be held. (See the conference mini site and exhibitor information for the details.)

Business solution sessions: For this conference we are offering an early bird opportunity for the first four vendors who commit and pay to exhibit at the annual conference. They will have the chance to do an interest session for members on the first day of the conference. This is their chance to sell, promote, and demonstrate a product or service they provide to the financial aid community. Act now only four opportunities exist for the 2010 Conference in Chicago.

Advertising: Other opportunities to put your company name before the membership is with a banner ad on our website for the remainder of 2010.

- For a special fee of \$750, a standard banner ad on various pages of the MASFAA web site (rotated continually), a shared banner ad on the MASFAA home page with a link to your corporate web site plus a listing and 25-50 word description on the Advertisers' Page.
- For \$500, one would get a shared banner ad on the MASFAA home page with a link to your corporate web site plus a listing and 25-50 word description on the Advertiser's Page.
- For \$375, a listing on our Advertiser's Page which includes a 25-50 word description and a link to your corporate web site.
- And for just \$250, one can receive a 25-50 word description on the Advertisers' Page (which could include your web address), but no direct link to your corporate web site.

What a great chance to get your name in the face of our members, as our website anticipates increased traffic as members search for conference information.

Associate members: Watch the website and your e-mail for information on the MASFAA Conference in Chicago. If you have questions or want to know other ways you can support our association, please contact Jayne Dinse MASFAA Donor Development Chair at Jayne.dinse@southcentral.edu or (507) 389-7269.

STATE OF IOWA REPORT

Joan Meyers, La'James International College of Hairstyling

Greetings from sunny, hot, humid, rainy Iowa where on any given day the climate can change from one extreme to the other, much like the changes we face in our financial aid industry! To cope with those changes and better understand what the new legislation holds in store for us, we had a well attended Spring Conference with a KISS theme – Keep It Simple 4 Students – held at the Embassy Suites in downtown Des Moines,. As you can see from the accompanying picture, the IASFAA officers really get into their theme, and they have so much fun they even convinced the visiting Wisconsin President to join them!! We were honored to have Jim Brooks, MASFAA President and Steve Schuetz, WASFAA President, in attendance with us.



In the photo: Amy Gaffney (President-Elect), Chad Olson (Past President), Steve Schuetz (Wisconsin President), Joan Meyer (President).

Our Spring Conference is when we also hand out our annual awards. This year's winners were:

- John Heisner Memorial Lifetime Achievement Award - Linda Schwin, Capri College
- Meritorious Service Award - Susan Ladd, Drake University
- Distinguished Service Award - Aaron Steffens, Luther College
- Outstanding Committee Member Award - Heather Gaumer, Iowa Student Loan
- Outstanding New Contributor of the Year Award - Gisella Baker, Hawkeye Community College

The end of June we also had our annual Summer Retreat where the Executive Council gathered to discuss current issues and decide upon changes that may be pertinent to our organization.

INDIANA STATE REPORT

Thomas Ratliff, Indiana Wesleyan University

What do being left handed or not liking chocolate have to do with being an ISFAA leader? Ask someone who was at the President's retreat!

ISFAA's 2010 President's Leadership Retreat took place on June third and fourth in Marion, IN at the Indiana Wesleyan University Student Center. The pictures from the event have one thing in common, and that is smiles. Whether setting goals for the year, pouring through the volunteer forms or brainstorming on better ways to accomplish our goals, smiles and laughter were ever present.

The retreat opened with Introductions and a task from the President that not only fostered the group working together, but learning about each other and our association at the same time. ISFAA's history, an executive council meeting, and committee discussions on goals and growth strategies filled the agenda.

Action plans were created and long talks were had about the budget as well as big ideas for new opportunities all were addressed in detail during the two days. The discussions carried on through a dinner, but finally began to convert more towards personal exchanges as the group enjoyed a dessert time of cheesecake and flan at the President's home. The time lent us opportunity to grow closer, appreciate each other even more and, for some, even the chance to catch their first fish!

ISFAA's leadership has set the bar high for the upcoming year, and all agree that without the many volunteers working together, those goals will not be reached. As for being left handed, not liking chocolate or even driving a red car, ask someone from ISFAA's leadership group (and watch them smile)!

Photos of ISFAA's 2010 President's Leadership Retreat



MINNESOTA STATE REPORT

Jayne Dinse, South Central Technical College

The Minnesota Association of Financial Aid Administrators (MAFAA) held its annual conference May 5-7 at Madden's Resort in Brainerd, Minnesota. Despite the three days of rain and cold temperatures, over 220 members gathered to gain valuable information from the Department of Education presented by Jamie Malone and Maria Marella.

Participants received training on Consumer Information, Year Round Pell and Net Price Calculator. A Direct Lending Suite offered

separate sessions on the school side of servicing, delivery system and Q and A. Our conference opened with Ross Bernstein, best-selling author who spoke of ethics and accountability. We also heard from Barbara Larsen who spoke on generational diversity in the workplace which tied to our theme, "Every Generation Needs Regeneration."

We raised \$2053 for Second Harvest Heartland, our conference charity, through a silent auction and cash donations.

President Lois Larson presided at our annual banquet where we were honored to be addressed by MASFAA President, Jim Brooks. He also presented the State Leadership Award to Jayne Dinse, South Central College. Also speaking that evening and presenting a session at the conference was Thomas Ratliff from Indiana, who attended as a part of the MASFAA exchange.

Numerous awards were given out at our banquet:

- Distinguished Service Award: Bill Silva-Breen, Luther Seminary
- Special Achievement: John Pogue, Inver Hills Community College
- Special Recognition: Diane Borchardt, Great Lakes
- President's Award: Nichole Lien, Mayo College of Medicine
- Executive Council Award: Jayne Dinse, Chair, South Central College
- Outstanding New Professional: Kerri Schmidt, Minnesota State College, SE Technical.

Our banquet also included the recognition of our members for their participation on committees and years of service to the profession as well as those retiring from the profession.

With the resignation of our President-elect, Lois Larson has agreed to serve our association again this year. She is currently assembling her leadership team and planning a retreat for the end of June.



In the photo: Jayne Dinse, State Leadership Award Winner; Jim Brooks, MASFAA President

OHIO STATE REPORT

Ann Marie Gruber, Lakeland Community College

The annual OASFAA Spring Conference was held May 12-14 at the beautiful Cherry Valley Lodge in Newark, OH. Two hundred and sixteen attendees enjoyed the networking and camaraderie that always occurs when financial aid folks from Ohio get together. The theme of the conference was "Students: The Heart of it All" and offered great sessions including federal updates from Marianna Deeken and Michelle Saigh from the Department of Education as well as a state update from Chad Foust from the Ohio Board of Regents. Special guest of the conference was Rob Wirt, the 2010 Michigan Student Financial Aid Association's President who attended through the MASFAA exchange program. The conference also welcomed ten OASFAA members to the 2010 Chenelle Leadership Class, recently renamed to honor Don Chenelle who retired in 2009 after many years of service to Case Western Reserve University and OASFAA. Each member of the class was nominated by a colleague and were afforded a special program dedicated to identifying and developing their leadership skills. They will continue in this endeavor throughout 2010-11 focusing on involvement in OASFAA and preparation for future leadership roles.

Another highlight of the conference was the presentation of several of OASFAA's awards. The James W. White Award is given annually to a member of OASFAA who exemplifies the dedication to students, to the aid community, and to the recipient's local community. This year's recipient was Roger Eldridge from Great Lakes Higher Education Corporation. In addition the Support Professional Award, which recognizes an individual or team of support/clerical professionals who exemplifies a strong commitment to the student and their institution, and the financial aid profession was awarded to Debra Clark from Central Ohio Technical College. Debra has been recognized by her co-workers as "the kind of employee you want to clone. She can plan backwards, forwards, and inside out to prepare for anything".

As is customary at the Spring conference, the gavel was passed from the 2009-10 OASFAA president Randy Ulses, University of Cincinnati to Ann Marie Gruber, Lakeland Community College the incoming president. Randy recognized his executive committee and commended them for all their hard work and efforts in identifying and dealing with the challenges that face many of our associations. Ann Marie has chosen the theme of communication for her year as president. She would like OASFAA to expand the way we communicate to the OASFAA community, to raise awareness of the activities of the association in the hopes to increase membership.



In the photo: Roger Eldridge (Great Lakes Higher Education Corporation) was honored with the James W. White by Randy Ulses (University of Cincinnati)



In the photo: Debra Clark (center), recipient of the Support Professional of the Year Award with the staff from Central Ohio Technical College who nominated her.



In the photo: Members of the Chenelle Leadership Class 2009-10 with OASFAA leaders.

CAP-AND-GOWN? DIPLOMA? HOW ABOUT THE IDEAL EXIT COUNSELING PACKAGE?

Craig Berkley, TG Account Executive Team Manager

Semester-end can turn into gridlock for students, especially graduating and departing ones who have federal student loans to repay. Taking finals, moving, and searching for job prospects — among other things — can overwhelm even the most organized student. Still, impressing upon students that exit counseling is not just one more marker before the finish line is vital, both to them and to their schools.

A school can offer exit counseling in person, by audiovisual presentation, or by interactive electronic means. While online exit counseling eases the burden on departing students, who can complete a session at their convenience, it doesn't afford as much of an opportunity for a school to reinforce the counseling message — but there are other options. (Refer to the Department of Education's (ED) Federal Student Aid Handbook (FSA Handbook) for details about the required elements of exit counseling.)

Better than a note on the fridge or a letter in the mailbox, how about a small portfolio of resources and information that students can take with them when they leave? Say, a folder stocked with vital loan holder contact information, brochures on repayment options, and tips on money management and post-college budgeting, to mention just a few items.

After the dust has settled at the end of the semester, a loan repayment folder could serve as an early reminder and guide on repayment and be as important, in its own way, as a diploma. Here's what that exit counseling takeaway might contain.

- **Lifelines, also known as contacts:** Contact numbers and names of all the parties involved in a student's loans can be invaluable. In case something unforeseen happens financially, students can use these numbers to gather advice and help. While loan holder information is good, loan servicer information is even better, since the servicer sends the bills and receives the payments. ED's contact information is also useful. Other contacts to consider include the school's financial aid office; the Web site and phone number for the National Student Loan Data System (NSLDS); and the default aversion counseling number and Web site for the student's guarantor, if applicable. NSLDS information is a regulatory requirement of exit counseling, so it may deserve its own flyer with instructions on use. Of course, lenders or servicers often have the most up-to-date information on a student's loans.
- **"What do I do now?" The manual:** The transition to life after college can be a culture shock for students. Changes abound in the form of work routines, money, living arrangements, and much more. Offering students a short manual on adjusting their expectations — for example, setting a realistic budget given expenses — would help alleviate bumps during the transition. You might include information on cost of living figures for various areas of the country.
- **Brochures aplenty:** Individual brochures on deferment and forbearance, repayment plans, and the consequences of default would offer reinforcement for responsible repayment and spell out the details, should students have questions. A brochure on loan forgiveness could affect the student's understanding of repayment, especially for those seeking public service jobs.
- **The mover's postcard:** Schools are required to gather contact information before a student leaves school; however, these addresses can be temporary, i.e., back to the parents for a few months before landing the job. Offer your departing students blank postcards that they can fill in with their new addresses once settled and mail back to your office.
- **Budget on paper:** Many lenders, servicers, and guarantors offer online budgeting worksheets to help students estimate expenses in and out of school. Provide a hardcopy of the same thing, preferably with a link to an online version provided on the page.
- **Career DIY materials:** Do-it-yourself is the name of the game for job-hunters, who have to create and shape their careers. Sharpen your students' career-building skills by offering materials on crafting a resume, drafting cover letters, interviewing, and following up on a job offer.
- **Money management primer:** Using credit, saving and investing, and balancing expenses with income are all skills students may already have a handle on. You can emphasize effective money management with a short booklet that reviews concepts and offers tips on putting these ideas into practice.

continued on page 9

Cap-and-Gown continued

- **Web site connections:** Most students socialize, do work, and inform themselves via the Web. Provide a short list of some useful Web sites for the student borrower, job-hunter, and mover. You can group the listing by these categories or focus on a specific area (e.g., repayment, careers, or managing money). The Occupational Outlook Handbook, produced by the Bureau of Labor Statistics of the U.S. Department of Labor, is available online and offers just one example of the many career resources available to departing students at the click of a mouse.

For help

Along with exit counseling, a folder of repayment resources can help departing students build a strong foundation for successful loan repayment. For more suggestions on what to include the folder, schools can look to colleagues in the field, including the student's guarantor. Guarantors work in all phases of the life of the loan and will likely have materials and ideas for creating the ideal exit counseling package.

Craig Berkley is an account executive team manager with TG serving schools in MASFAA. You can reach Craig at (800) 252-9743, ext. 4808, or by e-mail at craig.berkley@tgslc.org. Additional information about TG can be found online at www.tgslc.org.



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Just For Fun

Amy Gaffney, University of Dubuque



Word JUMBLE

After they saw the tuition bill, the parents had an "_____ " in a _____.

1. TGNSRA
a. —○—○—

2. RETIM
a. —○—○—

3. LALDROS
a. —○○—○

4. EUSORC
a. —○—○—

5. CAUNOTC
a. ———○—○○

6. TYNPEAM
a. ○○—○—○—○

Think you know the answers? Send your guess to agaffney@dbq.edu. The first three correct answers to the entire jumble will win a prize!

Did they really say that?

Some real quotes from real students.

"Can you help me? I want to get one of those uncircumcised loans?"

"I love coming here---you make me do stuff!"

"I filled out the FAFSA, so do I get my reward now?"

If you have a comical student quote to share, send it to agaffney@dbq.edu.

EMPLOYMENT OPPORTUNITIES AND STUDENT LOAN DEBT BURDEN

Marc Hendel, Senior Research Analyst, Iowa Student Loan

According to the latest data from the College Board, approximately two out of three undergraduate students leave school with student loan debt. Given the large proportion of students borrowing, it is not surprising that student loan servicers observe differences in repayment behavior. The point of this article is to put one influence on repayment behavior into context – the effect of the employment situation in the United States on a borrower’s ability to earn enough income to meet their student loan payment obligations. Anecdotally, most student loan borrowers who experience problems repaying their debt cite lack of income as the main issue.

Various reports, studies, and statistics such as delinquency and default rates indicate that some students have trouble repaying their student loans, while others, with equal or even higher debt loads have no trouble keeping their loans current. What causes the observed differences in students’ ability to repay their student loans? In this case, causes are hard to isolate, but it is known that certain student choices, such as the type of school attended, reveal different patterns of delinquency and default behavior. The most current Cohort Default Rates (CDR) released by the U.S. Department of Education to describe default behavior, indicate that proprietary schools, in aggregate, tend to have higher default rates on federal loans than public schools. Similarly, public schools (whose high rate in aggregate is mostly driven by community colleges) tend to have a higher default rate than private schools.

Completion is another characteristic that tends to be highly correlated with ability to repay student loans. Department of Education data on Direct Loans from August 2008 shows that 70% of those who default on those federal student loans did not successfully complete their program of study . One can imagine that a similarly large proportion of FFELP loan defaulters would also be non-completers.

Other student choices combine to cause the student to struggle with their repayment obligation. For example, the amount borrowed in combination with choice of major, may influence a student’s ability to repay their student loans. In particular, when a job at an expected salary level does not materialize after graduation, student borrowers may experience problems when their actual income level is not able to support their monthly loan payments. This situation can be realized when certain cyclical macro-economic factors present themselves.

Currently, the United States economy is in the tail end of the largest recession since the Great Depression. One consequence of a recession is high rates of unemployment and underemployment. As businesses struggle to resume “normal” operations, these two rates tend to remain high even after the declared end of the recession.

The unemployment rate for recent college graduates has climbed steadily over the course of the current recession. According to data from the Bureau of Labor Statistics (BLS), the unemployment rate for persons aged 20-24 (a group that includes recent college graduates but also includes others) has doubled between January 2007 and December 2009, as seen in the graph below.

Unemployment Rate for Persons Age 20-24



Source: Bureau of Labor Statistics - data is seasonally adjusted

Beyond unemployment, there remains the issue of underemployment. The BLS defines a worker as underemployed if they meet one of several possible conditions . One clearly defined condition occurs when a person who typically works full time is currently working fewer hours than desired due to business conditions. A second condition occurs when a person has taken a job that does not make use of his skills, experience or training. The latter situation tends to put the person in a job that pays significantly less than they would earn if they were working within their skill area.

The National Association of Colleges and Employers (NACE) produces widely-referenced statistics on employment of recent college graduates. A February 2010 NACE press release indicates that salary offers to the class of 2010 are down 2% compared to those offered to the class of 2009. There is variation across majors, with some showing a potential for increased starting salary offers. According to the press release, employers are also planning to reduce the number of college graduates hired by 7% compared to the class of 2009. In contrast, U.S. chip-maker Intel announced in February 2010 that they, along with 17 of their technology partners, plan to increase hiring of recent college graduates to fill 10,500 positions.

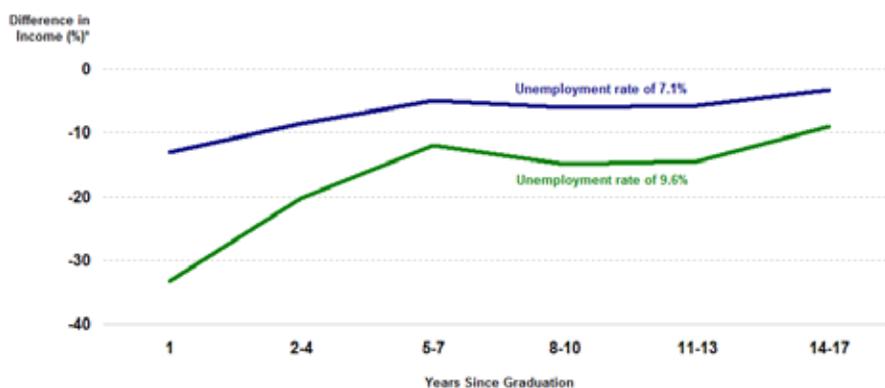
In addition to causing short-term liquidity problems for borrowers, underemployment and unemployment rates that are higher than normal tend to have long-lasting effects on those entering the job market for the first time. By analyzing three large administrative data sets from Canada, the authors of an April 2006 paper from the nonprofit, nonpartisan National Bureau of Economic Research in Cambridge, Massachusetts (<http://www.nber.org/papers/w12159>) looked at the long-term effects of graduating in a recession. In a typical economy, college graduates enter a robust job market and can usually find a job opportunity to match their needs. In contrast, graduates who enter the job market during a period of recession tend to have more difficulty finding the job they desire.

According to the paper, "Graduating in a recession leads to large initial earnings losses. These losses, which amount to about 9 percent of annual earnings in the initial stage, eventually recede, but slowly – halving within five years but not disappearing until about ten years after graduation." The earnings loss has a significantly larger impact on those with the lowest predicted earnings and on those entering the job market for the first time.

Lisa Kahn, a professor at Yale School of Management, reached similar conclusions in her August 2009 study of data on a national group of college graduates. By using the recession of the early 1980's as her marker, she reaches conclusions that extrapolate to future recessionary periods. Although Kahn's work is based on a study of white, male college graduates because of the perceived lack of sensitivity to external factors influencing job choice, her conclusions are relevant, as white males tend to earn more than other demographic groups (with the exception of men of Asian origin, according to the BLS). The results of this study can be viewed as a "best case" scenario, with other demographic groups most likely faring worse.

Kahn's results show that when unemployment is comparable to the current rate (the 9.6% line on the graph below), first-time job seekers may earn a starting salary as much as 30% or more below their counterparts who began their career when unemployment was lower (5.3%). The conclusion supports a loss of 6-9% of initial income per 1 point increase in the unemployment rate over the baseline of 5.3%. The last time the unemployment rate in the United States was close to 5.3% was in May 2008, when it reached 5.5% (seasonally adjusted). As seen on the graph, even after 17 years, those entering the job market during a recession have incomes that still lag their counterparts. Kahn's conclusion: the effects of entering the job market in a recessionary period are, "... large, negative and persistent."

Short-Term and Long-Term Effects of a Recession on the Income of Recent College Graduates



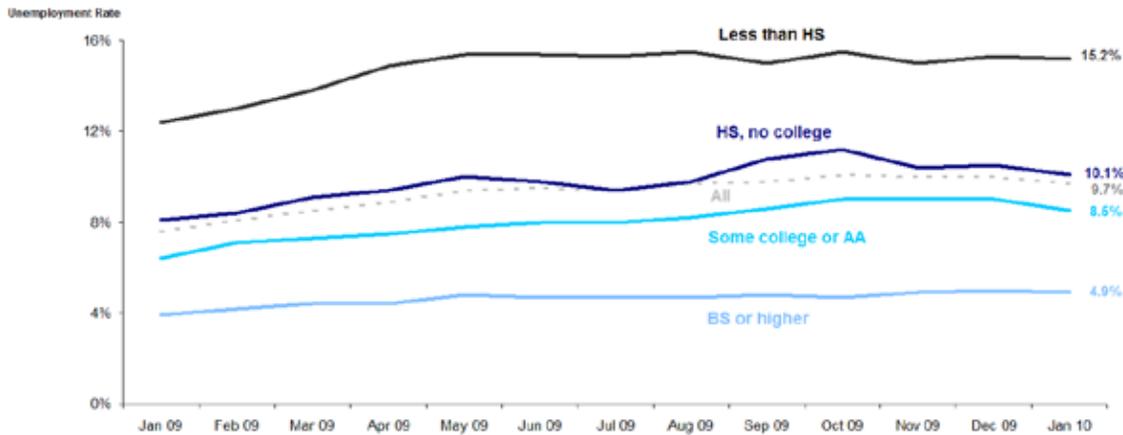
*Compared to an unemployment rate of 5.3%

Source: Lisa Kahn - as displayed by the Wall Street Journal

The data referenced above, when combined with the increasing amount of student loan debt taken on by today's college students leads to a sobering conclusion for current graduates: it will most likely be more difficult to find a job that pays as well as anticipated. Even worse, there will most likely not be a compensatory "jump" in income in the future. This could foreshadow a rise in the number of student loan borrowers who are unable to make their student loan payments. The lower income level realized by these recent graduates may have far-reaching effects beyond student loans – perhaps the now higher-than-anticipated debt-to-income ratio might influence other aspects of life such as the ability to make major purchases, the need for financial or other assistance from friends or relatives, or possibly the postponement of decisions such as marriage and having children.

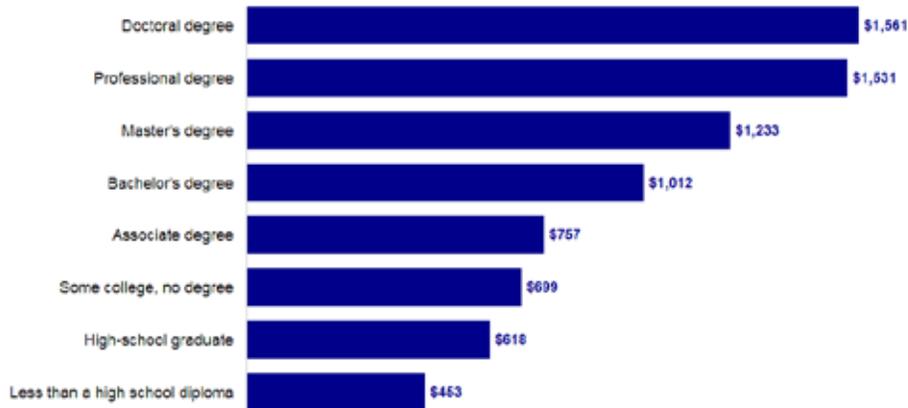
If the outlook for recent graduates is bleak, what about those that do not graduate? Frequently quoted BLS data clearly shows the employment and income advantages of a college degree, as seen in the graphs below. Those without a college degree have historically higher unemployment rates than those with a degree or certificate. Similarly, those with college degrees tend to have higher earnings than those without a degree. Without the advantages of a college degree to help boost their career prospects, student loan borrowers who do not complete their program of study will certainly fare worse financially than their degreed counterparts. Leaving school without a degree in a recession will increase the negative effects experienced by those who leave with a degree.

Unemployment Rate by Level of Education



Source: Bureau of Labor Statistics - data is seasonally adjusted

Median Weekly Earnings by Educational Attainment (2008)



Source: Bureau of Labor Statistics Current Population Survey - annual averages for persons aged 25 and older

Although experts disagree on what college students who graduate in the midst of an economic upheaval should do, some recommend that new graduates avoid entering the job market when it is in such a depressed condition. The potential loss of income for the year or two needed to see recovery in the economy may be outweighed by the increase in starting salary realized. Graduating students who go back to school for additional education may even increase their earnings potential because of their advanced degree, as seen in the graph of median weekly earnings by educational attainment above. Of course, going back to school may require additional student loan borrowing, which may negate any increases in salary. Regardless of their choice, student borrowers graduating into a recession face a future of financial challenges.

¹See slide 38 of <http://www.ifap.ed.gov/presentations/attachments/5DefaultandDelinquencyManagementV1.ppt>

²http://www.bls.gov/cps/cps_add.htm

³<http://www.nacweb.org>