

SkillUp **express**
WASHINGTON *advantage*

The College Completion Fund

Prepared by Rich Nafziger - Commissioned by SkillUp Washington and Express Credit Union/ Express Advantage with support from Northwest Area Foundation and Turnstone Fund

The College Completion Program

- ✓ Express Credit Union will provide capital to students to invest in college programs.
- ✓ Investments will be targeted to *lower* income adults who are eligible for financial aid yet face substantial college cost gaps or who are just above line for financial aid eligibility
- ✓ Loans will be packaged with financial, academic and career counseling.
- ✓ In many cases, Loans could be small “bridge” loans for students until they get access to other forms of aid, they run out of money, or if they have a short-term financial issue. These could be similar to payday loans.

LEVERAGE



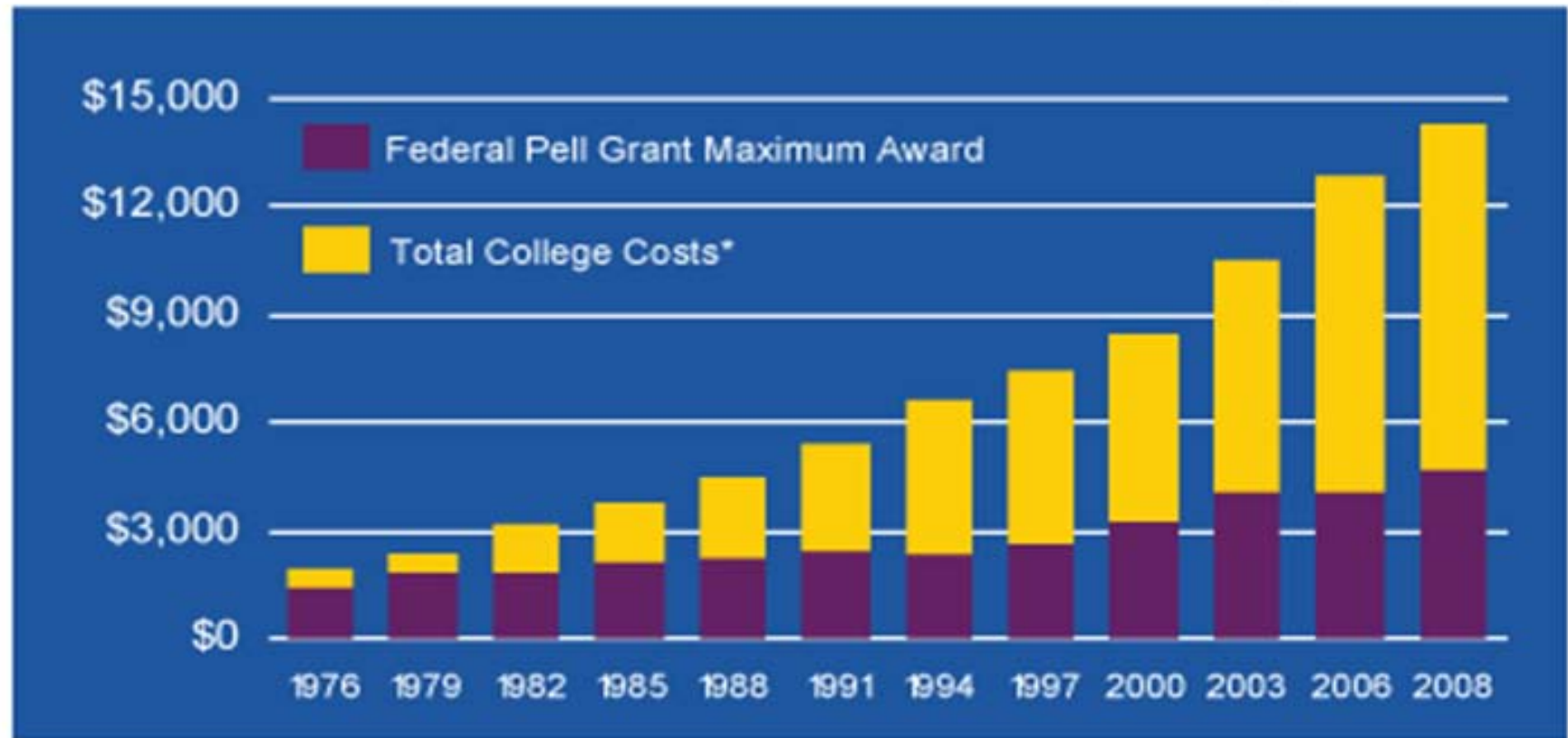
- ✓ Community Development Financial Institutions provide loans and financial counseling.
- ✓ Colleges provide academic counseling and pathway programs with flexible schedules.
- ✓ Philanthropic organizations provide a guaranty fund to protect loans as well as grants to start-up counseling and management programs.
- ✓ Employment programs like WorkSource provide career counseling and support services.
- ✓ Students and in some cases employers payback loans.

Who are today's Students

Demographics	Seattle Central	Seattle North	Seattle South	Seattle Vocational	Washington State Colleges
Immigrants or refugees	18.5%	8.6%	9.3%	17.5%	8.4%
Single with Children	7.0%	7.0%	11%	27%	11%
Couples with Children	12%	23%	23%	9%	19%
Work Full time	18%	29%	29%	7%	17%
Work Part Time	26%	26%	20%	13%	26%
Median age	27	29	29	29	26
Over age 30					37%
Students of Color	55%	39%	52%	83%	36.3%
WHO SHOULD THEY BE?					

The Problem – The Cost of College

Federal Pell Grants: Maximum Awards & Total College Costs*



* Includes tuition, fees, room, and board at a public, four-year university or college. Selected fiscal years, 1976-2008.

Source: U.S. Department of Education, Congressional Research Service, and The College Board.

Completion, Employment and Earnings

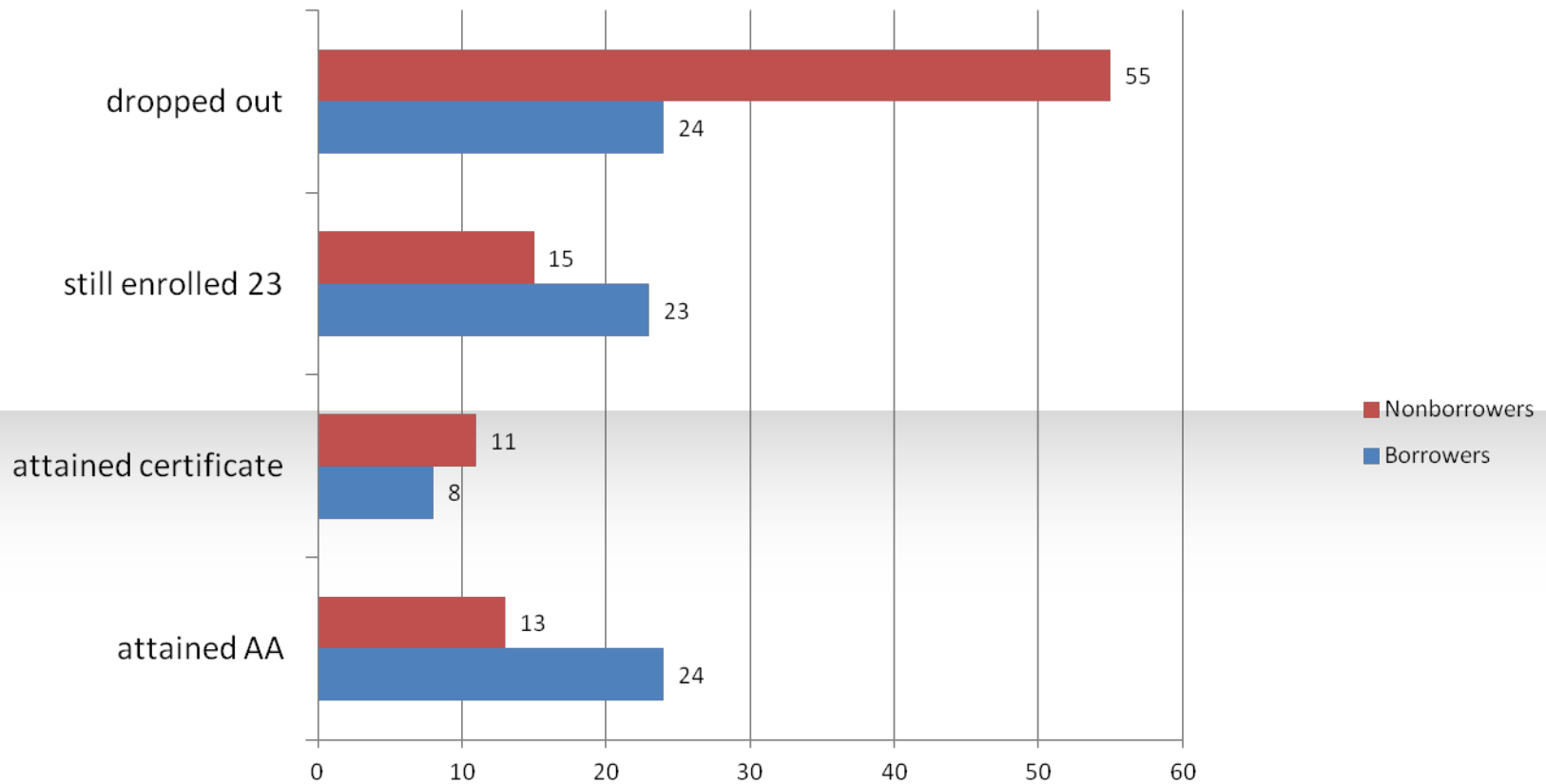
- The financial success of the Completion Fund is to a large extent determined by the success of the student in completing a program and getting a good job.
- The Washington State Workforce Training and Education Coordinating Board (WETECEB) Impact Study of workforce education programs in Washington found that *Completers are 22% more likely to find employment and earn an annual income 31% higher than noncompleters.*

Factors that lead to Completion

The Checklist :

- The relationship between completion, employment, earnings and default makes completion a key predictor of program success.
 - The factors that lead to completion should be on the checklist that is used in underwriting.
 - Limiting loans to these programs would vastly reduce default risks.
- ✓ Financial aid
 - ✓ Working less than half time.
 - ✓ Enrolled in a pathway program that leads to a job.
 - ✓ Completed 30 credits or more.
 - ✓ Academic, job and financial counseling.
 - ✓ Support services

Borrowers more likely to complete



RUNNING OUT OF MONEY

Financial aid officers and service case managers indicate the biggest unmet financial aid needs of students are:

1. They run out of money when they are already past the tipping point but have spent down their savings or Unemployment.
2. They are just over the line for access to financial aid.
3. A single event bumps them off course.

Working half time or less.

- The number of hours **work outside of college** could be the biggest factor completion.
- Students who limit employment to 10 or 15 hours per week are more likely to stay enrolled and earn degrees or certificates.
- A 2011 survey of students indicated, “The number one reason students give for leaving school is the fact that they had to work and go to school at the same time and, despite their best efforts, the stress of trying to do both eventually took its toll.
- More than half of those who left before completing a degree or a certificate said that the “need to work and make money”

The Problem - Complexity

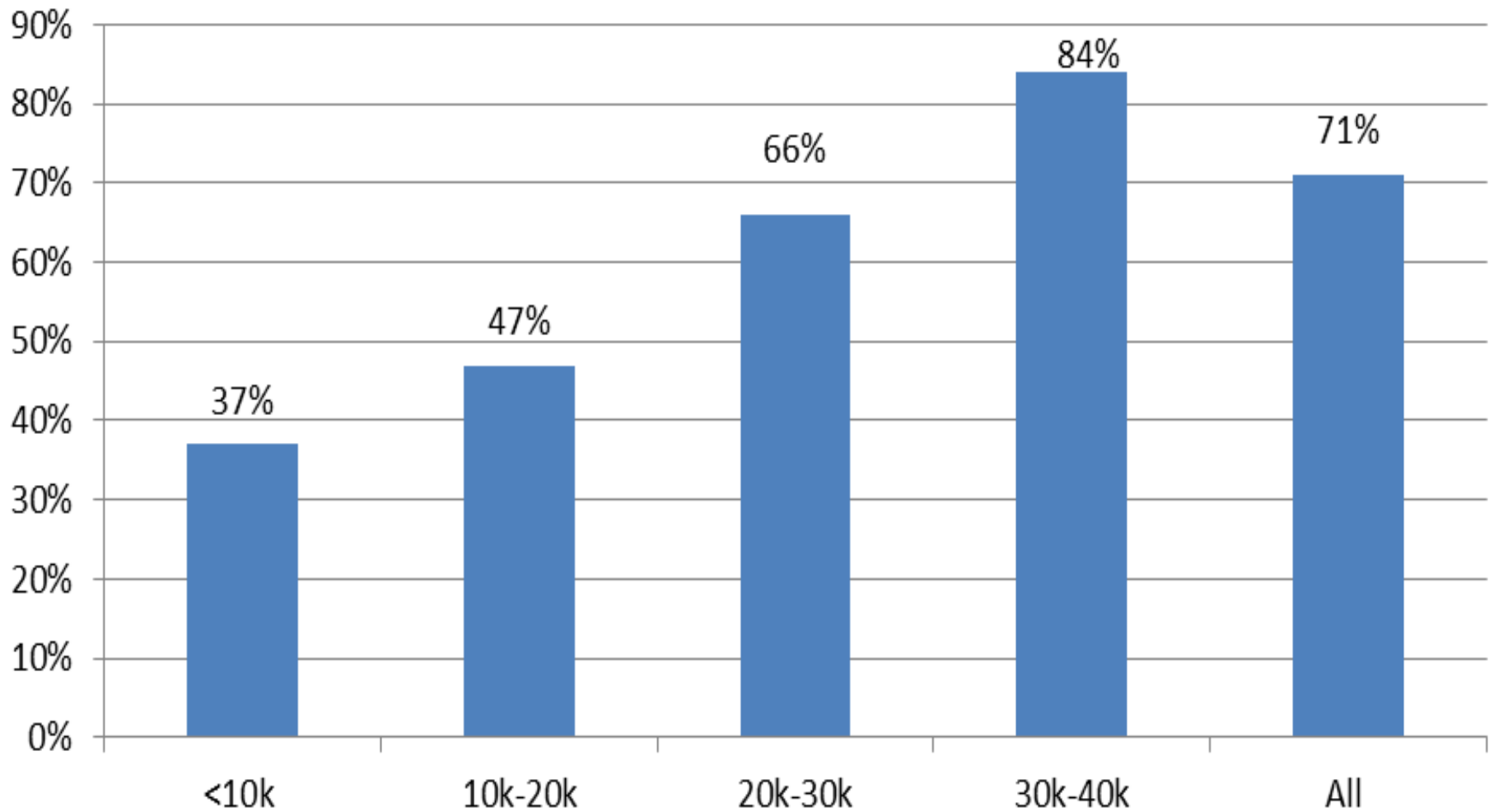
- The lower an independent's income, the more risk adverse the student to borrowing.
- Behavioral factors often play a bigger role in decision-making than financial or economic factors.
- We all tend to discount future gains compared to current losses.
- We are all loss averse. Potential losses loom larger than the gains. We overvalue what we already have and discount what we may get in the future. 85% of Americans spend more than they earn.
- *Loss aversion is magnified when the loss is potentially ruinous or our lifestyle is threatened.*

Complexity of Financial Aid

Research indicates that there are three major barriers to students filling out a FAFSA.

- 1. The complexity of signing up for the FAFSA**
- 2. Application deadlines**
- 3. Awareness of financial aid**

Percentage of Independent Community College Students Who Did Not File a FAFSA



Financial Counseling

- **H&R Block Study** - While only 13.7% of the control group filed a FAFSA, almost 40% of Group 1 filed.
- **A Georgetown University study** - one-on-one financial counseling improved student credit scores from the lowest 10th percentile by 36 points.
- Dynarski found that the **Social Security Higher Education Program** increased attendance by 24% and completion by 16% or ***3.6% for each \$1,000 of grant aid*** offered.

Loans and Terms for Stafford and Private Loans for Community College Students			
	Subsidized Stafford	Unsubsidized Stafford	Private Loans
Eligibility	Students with financial need, enrolled at least half-time, no credit check; college must participate in federal student loan program.	Any student enrolled at least half-time, no credit check; college must participate in federal student loan program.	Requires credit check and co-signer.
Maximum Amount	\$3,500 for freshmen. \$4,500 for sophomores	\$9,500 for freshmen \$10,500 for sophomores	Most available for up to cost of attendance minus other aid.
Interest Rates	3.4% expires September 2013 reverts to 6.8%	6.8%	Up to 25%
Charges during school year	None	Interest accrues	Interest accrues and payments due.
Hardship policy	No payments required and no interest charged for three years of economic hardship.	No payments required but interest charged accrues for three years of economic hardship	Not available
Income-based repayment	Available	Available	Not available

Risk

Area	Cohort Default (2010)	Cumulative Default (2009)	Budget Lifetime (2011)
U.S. Total	10.0%	20.9%	31.1%
Bates TC	16.9%		
Tacoma CC	10.3%		
Spokane CC	14.2%		
Renton TC	9.3%		
Portland CCs	12.0%		16

Risk – default rates

- **Single with dependents** 52%
- **Very low earnings** 35% - 45%
- **Noncompletion** 27% - 36%
- **Married with dependents** 24%
- **Unemployment** 23%
- **Debt Burden <5** 21%

Selected Default Rates

Institution/loan type	Total loans	Average size	Avg. Term – Months	Default rate	Guarantee fund size
Credit Union 1 Auto Low-income		\$7,000	36	2.25%	
Credit Union 1 – payday Low income		\$ 500	3	2.25%	
Credit Union 2 Payday Low income	4,780 \$2.5 m	\$ 910	6	1.80%	50%*
Credit Union 3 Auto Low-income	\$134K	\$1,000 min \$7,000 max	24	5.0%	
Credit Union 4 Auto Low-income	\$651K	\$10,000	60	2.8%	
Credit Union 5 Payday Low Income	\$13.5 M	\$ 550	1	1.7%	
Credit Union 6 Payday Low Income	\$325K	\$ 411	3	.6%	
Credit Union 7 Payday Low income	100K	\$ 100 min. \$ 500 mx	2	12.8%	
Citibank Student Loans All	6,000,000 loans	\$10,000	15 years	4.1%	53% ** 18

FOR STUDENTS

- Direct help in navigating financial, financial aid, college programs and careers.
- Loans to bridge gaps in aid, to finish programs or to allow them to go to school full-time.
- A single location where they have access to complete services.

For Express

- A new loan product that meets the needs of their customers.
- Financial protection from default from a guaranty fund.
- Funds to increase and improve financial counseling.

For Philanthropy

- Leverage that will stretch contributions to a larger number of students.
- Partnerships between colleges, credit unions, service providers, business and students.
- Performance based funding targeted to students likely to yield the highest return on investment.

1. Opportunity Center Model

- Use the Opportunity Center at North Seattle as a model.
- Express Credit Union is already at the Opportunity Center and with funding could provide intensive loan counseling, management and education.
- The Credit Union could work with the college financial aid staff to develop combined loan and financial aid packages.
- The Center already coordinates multiple funding streams that can provide support to students as well as job search and career counseling.
- Philanthropic organizations could provide funding for a guarantee fund as well as staff for financial and career counseling.

2. The Opportunity Grant Model

- The program would be jointly managed by the State Board for Community and Technical Colleges and Express Credit Union.
- The Board already operates a grant program which is targeted to the same population in pathway programs.
- The loan program could be used to stretch the grant dollars and thus reduce the loan amount and increase the number of people covered.
- The state would provide a guarantee fund.

3. The Direct Model

- Express Credit Union would offer loans directly to students.
- Express would utilize an underwriting checklist based on the factors that are associated with program completion and limit financial risk.
- Philanthropic organizations could provide funding for a guarantee fund as well as staff for financial and career counseling.

4. The Business Model

- Express would offer the loans to employees and potential employees in a particular business or industry.
- Businesses would assist students in paying back the loans.
- The state could provide a tax credit to match business payments.
- Philanthropic organizations could provide funding for a guarantee fund as well as staff for financial and career counseling.

SCALE

Year	Loan Volume	Guarantee	
1	\$250,000	\$100,000	Starting Point - Opportunity Center
2	\$500,000	\$200,000	Double lending - Opportunity Center.
3	\$1,000,000	\$200,000	Double lending, based on experience lower guarantee fund %. Expand to an additional center
5	\$10,000,000	\$1,000,000	Start to scale. Expand to 10 other locations.