

# **Iowa Student Loan – Determined to be the Best, Most Student Friendly Loan Provider**

By Steve McCullough

Too much student debt is a problem for Iowa and the nation. It hampers young people getting started in the workforce, and negatively impacts the economy.

I know personally what it's like to have student loans because I needed them. I graduated from college in 1986 with a \$15,000 debt owed to Iowa Student Loan. My debt, when adjusted for the cost of inflation, was even more than today's average student loan debt in Iowa. I borrowed because my parents couldn't afford to pay for my college, and that part of the story for students hasn't changed much in 25 years.

A number of social and economic factors demonstrably contribute to today's increasing student debt loads of tens of thousands of dollars in many cases. Among the most conspicuous reasons for the rise in student debt are:

- Below-average incomes for Iowa families (the state ranks 36th in income according to tax returns filed with the IRS).
- Dramatically rising costs of college in recent years (up 98 percent between 1994 and 2004 in Iowa compared with the national rate of increase of 69 percent).
- Relatively stagnant growth in grants and scholarships.
- The state's No. 1 ranking for percentage of students going on to college, including those with high financial needs.

Neither Iowa Student Loan, a state-based private nonprofit organization, nor Iowa financial institutions create the demand for loans, they respond to it. They do not control the prices charged by colleges, the low per capita incomes of our families, nor federal or state appropriations for student aid and other education priorities. This is a multifaceted problem and the solution requires a multifaceted approach.

## **The Use of Private Loans**

Increasingly in Iowa, parents and students are relying on private student loans to pay for college. While large out-of-state loan providers may offer lower rates on their private loans to high-income families with good credit ratings, they charge low-income students as much as 18 percent interest. The Partnership Loan Program, offered by Iowa Student Loan and funded in part by the issuance of federal tax-exempt bonds, is constructed to provide the best deal for middle- and low-income families, which is the majority of families in Iowa. For those with the greatest need, these loans are the best available, which is the philosophy that has guided this program to help serve Iowans since it was authorized in 1992 at the urging of the Iowa College Student Aid Commission.

A national study done by the College Board and localized with data gathered by the Iowa College Student Aid Commission demonstrates clearly that Iowa students utilize federal loans at a higher rate than students nationally. Moreover, Iowa students use private loans at a proportion of 21.6 percent. Nationally, students use private loans at a rate of 23.2 percent.

It is unrealistic to believe that if Iowa Student Loan stopped offering private loans that Iowans would stop borrowing. More and more, however, parents are unable or unwilling to follow that counsel. If Iowa Student Loan stopped providing its low-cost private loans, these individuals would instead borrow from for-profit providers that would charge higher interest rates, take the jobs and economic activity out of the

state, and distribute any earnings to their shareholders. Iowa Student Loan reinvests its earnings in Iowa—a total of \$60 million for the past two fiscal years. Moreover, the corporation funds services, such as the Iowa College Access Network, that counsels students and parents to avoid excessive borrowing by accessing all available scholarships, grants and government loans, including federal PLUS loans, before looking at private options.

Most important, a lack of affordable private loans may force some Iowans to abandon their dreams and plans to go to college. ISL is more needed than ever as it follows its original mission to provide low-cost student loans so Iowans can access higher education.

### **So what can be done?**

First, public confidence in student lending organizations can be enhanced by making some changes in federal laws to prohibit the inappropriate practices and abuses committed by a few lenders elsewhere in the nation. We deplore the unethical practices that have come to light in other parts of the country and have urged Iowa's congressional delegation to pass sunshine legislation in order to put in place clear and appropriate national standards.

At the state level, Iowa Student Loan's mission can be enhanced by adoption of recent recommendations made by the state auditor for modifications to update our oversight structure and strengthening communications with the state. We support the auditor's suggestions and intend to begin to implement them right away.

Please bear in mind that changes among student loan providers only addresses the *symptom* of the real problem which is the need for students and families to increasingly borrow more for college. To address the *real causes* of increased student debt, we need to take the following actions:

1. Work to increase per capita income of Iowa families so they can better afford to pay for college without borrowing.
2. Enhance support of Iowa colleges and universities to mitigate against the need for greater tuition increases in the future.
3. Increase scholarships, grants and work-study programs for college students.
4. Support increased financial education efforts for Iowa high school and college students and their families.

The issue of student loan debt in Iowa is a serious, multifaceted problem involving students, parents, schools, lenders, and federal and state policymakers. Parents and students can do their part by doing all they can to avoid borrowing and by making good consumer decisions.

Iowa Student Loan has been and will continue to be part of the solution, as it works to become the best, most student-friendly loan provider in America.

*Steve McCullough is the president and chief executive officer of Iowa Student Loan Liquidity Corporation (ISLLC), a private, not-for-profit student loan secondary market located in Des Moines. He is a graduate of the University of Iowa, where he also earned an MBA. He passed the CPA exam in 1986.*

For more information, go to [www.studentloan.org](http://www.studentloan.org) and [www.ICANsucceed.org](http://www.ICANsucceed.org).