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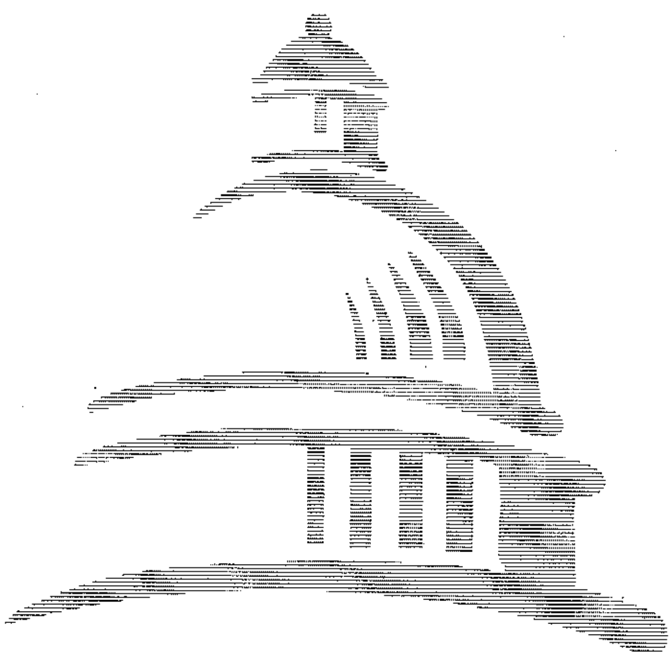
March 22, 2017

Overview of Student Loan Marketplace

L E G I S L A T I V E A N A L Y S T ' S O F F I C E

Presented to:
Senate Banking and Financial Institutions Committee
Hon. Bill Dodd, Chair



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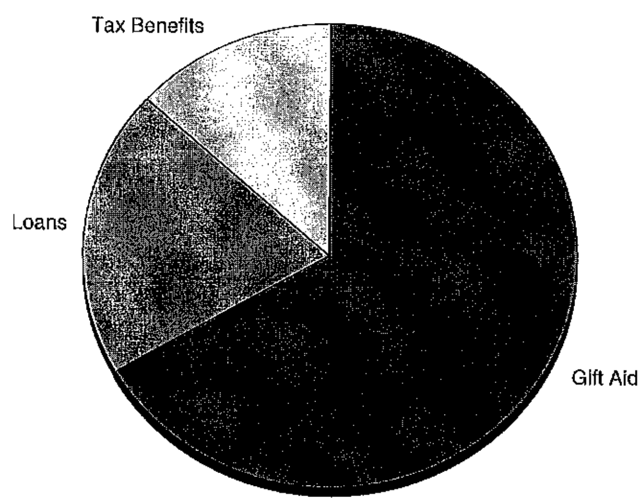
Purpose of Student Loans

☑ **Student Loans Are a Type of Financial Aid**

- Financial aid helps students/families cover the costs of attending college. Aid can help cover tuition, books and supplies, and living expenses.
- Most financial aid is "need based"—that is, it aims to make college accessible for students/families who cannot afford to pay out of pocket.
- Main types of financial aid include:
  - Gift aid: grants, scholarships, and tuition waivers that students/families do not repay.
  - Tax benefits: reductions to income tax payments or tax refunds.
  - Loans: aid that students/families must repay over time.

Loans Comprise One Fifth of Financial Aid Received by Undergraduates Attending Public Colleges in California



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Types of Student Loans

Two Main Categories of Student Loans

- Federal student loans are made by the federal government.
- Nonfederal student loans are made by states, colleges, and financial institutions. Loans made by financial institutions are often referred to as "private" loans.
- Loan terms, including credit requirements, borrowing limits, interest rates, and loan fees, vary considerably.

Federal Student Loans

- The federal government currently has three student loan programs: (1) Direct Loans, (2) PLUS Loans, and (3) Perkins Loans.

Federal Government Has Three Student Loan Programs[a]

	Borrowers	Need Based?	Credit Requirement	Annual Limit[b]	Lifetime Limit[b]	Interest Rate[c]	Loan Fee	Grace Period
Direct Loans								
Subsidized	Undergraduates	Yes	None	$5,500	$23,000	3.8%	1.1%	6 months
Unsubsidized	Undergraduates	No	None	7,500[d]	31,000[d]	3.8	1.1	6 months
	Graduate students	No	None	20,500	138,500[e]	5.3	1.1	6 months
PLUS Loans	Graduate students	No	No adverse credit history	Up to cost of attendance	—	6.3	4.3	6 months
	Parents	No			—	6.3	4.3	—
Perkins Loans	Undergraduates	Yes	None	5,500	27,500	5.0	—	9 months
	Graduate students	Yes	None	8,000	60,000[e]	5.0	—	9 months

[a] Reflects current program rules for new loans.
[b] Amounts shown for undergraduates are for dependent students. Limits are higher for undergraduates who are independent.
[c] Fixed for the life of the loan. Congress sets the rate for Direct and PLUS loans based on market rates, plus a fixed amount. It has set a rate of 5 percent for Perkins loans. The federal government pays interest costs on subsidized Direct loans and Perkins loans while the student is in school.
[d] Including any amounts borrowed through subsidized loans.
[e] Including loans received for undergraduate study.

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Types of Student Loans *(Continued)*

☑ **Nonfederal Student Loans**

- **State Student Loans**
  - At least eight states (Alaska, Hawaii, Massachusetts, Minnesota, New Jersey, Texas, Washington, and Wisconsin) operate student loans programs.
  - Some state programs are limited to certain students, such as students demonstrating financial need or students in nursing and teaching programs.
  - Loan terms vary considerably across state programs. For instance, whereas Massachusetts' program charges no interest, Minnesota's program has a 6 percent fixed rate option and a 3.5 percent variable rate option.
- **College Student Loans**
  - Some public and private colleges operate their own student loan programs.
  - For example, some campuses at the University of California, California State University, and California Community Colleges operate student loan programs.
- **Private Student Loans**
  - Many banks, credit unions, and other financial institutions offer student loans.
  - Typically, private loans are capped at students' cost to attend college less other financial aid received.
  - Private lenders typically consider credit history and require a co-signer. They set interest rates depending on creditworthiness. Interest rates also tend to be variable.

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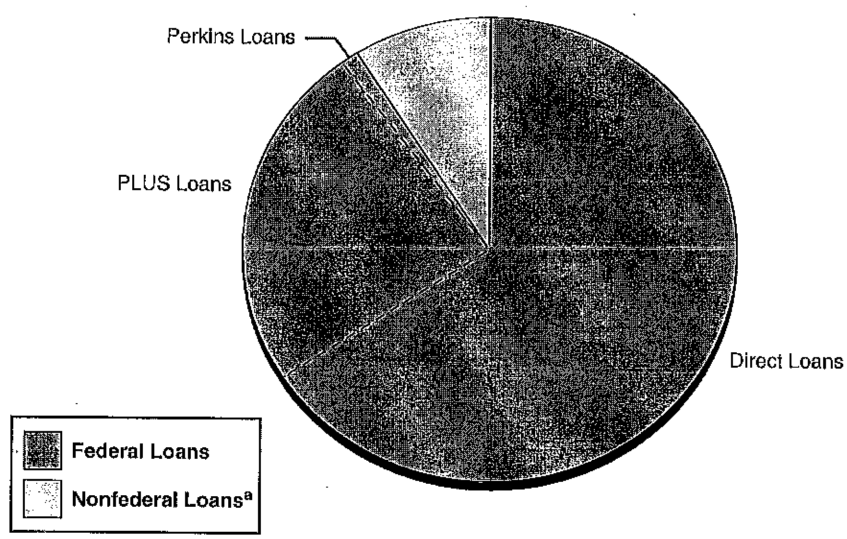
Student Loan Market

Federal Loans Make Up Vast Majority of Student Loan Market

- In 2015-16, the federal government lent $8.3 billion to California students through its three loan programs.
- Precise data on nonfederal loan volume for California students is not available. However, various sources estimate nonfederal loans currently make up 8 percent to 10 percent of all student loans nationally. The figure below assumes nonfederal loans make up 9 percent of student loan borrowing for California students, or $830 million.

Federal Loans Make Up Vast Majority of California Student Loans



[a] Estimated based on national estimates of nonfederal student loan borrowing.

Student Loan Market *(Continued)*

☑ **Federal Share of Student Loan Market Has Fluctuated Over Time**

- Just prior to the start of the last recession in 2008-09, federal loans made up 75 percent of the national student loan market.
- At the height of the recession in 2010-11, the federal share of the national student loan market reached 94 percent. Primarily, this shift was due to private student lenders tightening student loan eligibility requirements.
- Since that time, the federal share has declined to about 90 percent of the national market.

☑ **Students Attending Private Institutions Make Up Greater Share of Student Loan Market**

- In California, about 25 percent of full-time equivalent enrollment is at private institutions (both nonprofit and for-profit), but about 65 percent of federal student loan dollars go to students attending these institutions.
- This is because students attending private institutions (1) are more likely to borrow and (2) borrow greater amounts, as compared to students attending public institutions.
- National-level data indicates students attending private institutions also make up a greater share of the private student loan market.

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Student Loan Servicers

☑ Both Federal and Nonfederal Lenders Use Student Loan Servicers

- Student loan servicers are organizations hired by lenders to "service" their loans. Servicers make loan disbursements, collect payments, and perform other administrative tasks.
- Both the federal government and many nonfederal lenders use student loan servicers.
- Four student loan servicers together service 94 percent of outstanding federal loan dollars.

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Student Loan Repayments

☑ Federal Direct Loans Offer Traditional and Income-Based Repayment Plans

Seven Repayment Plans Available for Federal Direct Student Loans[a]

Plan	Monthly Payment	Repayment Period
Income-Driven Plans[b]		
Pay As You Earn	10 percent of discretionary income	Up to 20 years
Revised Pay As You Earn	10 percent of discretionary income	Up to 20 years
Income Based	10 percent of discretionary income[c]	Up to 20 years
Income Contingent	20 percent of discretionary income[d]	Up to 25 years
Traditional Plans		
Standard	Fixed	10 years
Graduated	Lower at first, then increases	10 years
Extended	Fixed or graduated	25 years

[a] Also applies to PLUS loans for graduate students but not parents.
[b] Payment must be less than payment under Standard plan to participate in Income Based and Pay As You Earn plans. For all plans, loan balances are forgiven at the end of repayment period. Discretionary income is the difference between a borrower's income and 150 percent of the poverty level (100 percent for the Income Contingent plan).
[c] For borrowers taking out their first federal loan after July 2014. Other borrowers pay 15 percent of discretionary income and have a 25-year repayment period.
[d] Payment also can be based on a 12-year repayment plan, adjusted for income.

- The federal government also operates a Public Service Loan Forgiveness Program for Direct Loan borrowers working in the public sector who make timely payments for the equivalent of ten years.

☑ Nonfederal Repayment Plans Vary by Lender

- State and college lenders sometimes offer repayment plans similar to the federal government, though each lender establishes its own offerings.
- Private lenders typically do not offer income-based repayment plans, though some are starting to offer them.

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Student Loan Default Rates

Federal Loan Default Rates

- The federal government typically considers a loan to be in default if the borrower has not made a payment in more than 270 days.
- For Direct Loans and certain legacy federal loans, the federal government reports an average three-year cohort default rate of 10.4 percent for California institutions. This is slightly lower than the national average of 11.3 percent.

Private Loan Default Rates

- Private lenders typically consider a student loan to be in default if the borrower has not made a payment in 30 to 90 days.
- Data from the six largest private lenders indicates that 3 percent of loans currently are 30 to 90 days past due and an additional 2 percent are more than 90 days overdue.

Prepared Remarks of Seth Frotman
Assistant Director and Student Loan Ombudsman
Consumer Financial Protection Bureau

Wednesday, March 22, 2017
Before the California State Senate Banking and Financial Institutions Committee
Sacramento, CA

Chairman Dodd, Vice Chairman Vidak, and members of the committee, thank you for the opportunity to be here today to discuss the magnitude of the student debt issues we are facing in this country, its effects on the millions of student loan borrowers throughout the state of California, and the critical role that student loan servicers play in the financial lives of these consumers. My name is Seth Frotman and I serve as the Student Loan Ombudsman at the Consumer Financial Protection Bureau, where I lead the Bureau's Office for Students and Young Consumers.

Staggering growth in student debt

At this point, you have probably heard the numbers, but I think they are worth repeating. As I sit before you today, more than 44 million consumers across the country collectively owe over $1.4 trillion in student loan debt.[1] Over the last decade, the total volume of outstanding student loan debt has nearly tripled, adding nearly $900 billion on the backs of student loan borrowers.[2]

These increases can translate into very real financial consequences for student loan borrowers. For a typical borrower, an increased debt load results in dramatically higher amounts coming out of monthly paychecks. For example, according to one recent study, the average student loan payment for a 20-to-30 year old borrower in 2015 was $351, a payment amount more than 50 percent higher than it was a decade ago.[3] Rising monthly debt burdens can further strain

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[1] *See* Fed. Res. Bank of NY (FRBNY), *2016 Student Loan Update* (2016), https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/xls/sl_update_2016; Fed. Res. Board, *Consumer Credit* (Jan. 2017), https://www.federalreserve.gov/releases/g19/current/.

[2] *See* Fed. Res. Board, *Historical Data: Consumer Credit Outstanding (Levels)* (accessed Mar. 7, 2017), https://www.federalreserve.gov/releases/g19/HIST/cc_hist_memo_levels.html.

[3] *See* Joel A. Elvery, *Is There a Student Loan Crisis? Not in Payments* (May 2016), https://clevelandfed.org/~/media/content/newsroom%20and%20events/publications/forefront/ff%20v7n02/ff%20v7n0204%20is%20there%20a%20student%20loan%20crisis%20pdf.pdf?la=en/ (observing that, as inflation-

household balance sheets for younger consumers, especially for those who struggle to balance sluggish wage growth amidst increases in other expenses such as health care, housing, and child care.[4]

One study shows that here in California, the average student loan balance of college graduates has grown by nearly 30 percent over the last decade.[5] In fact, over 50 percent of California students who enroll in bachelor degree programs now graduate with student loan debt, averaging over $22,000 per student.[6]

As the principal federal financial regulator for the higher education finance industry, the Consumer Financial Protection Bureau has a responsibility to serve consumers across the country whose lives and livelihoods are often shaped by this debt. Their struggle continues and their circumstances would not change even if we were to address the rising costs of college tomorrow.

Millions of student loan borrowers continue to struggle

Recent data and research demonstrates that student loan borrowers in communities across the country are struggling under the weight of student debt. For example:

- **Despite recent improvements in the labor market and the economy, the share of delinquent student loans remains stubbornly high.** The share of consumers with past-due mortgages, credit cards, and car loans is at or below pre-

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adjusted student loan balances rose dramatically between 2005 and 2015, the average payment rose by more than 50 percent.).

[4] Research shows that real wage growth for individuals aged 25-34 with bachelor's degrees has been stagnant over the last decade. Over the same period, the cost of healthcare, housing, and childcare has outpaced inflation. *See* U.S. Census Bureau, *Current Population Survey Annual Social and Economic Supplement* (2005 - 2015), https://www.census.gov/data/tables/time-series/demo/income-poverty/cps-pinc/pinc-03.html#.html; FRBNY, *The Labor Market for Recent College Graduates* (Jan. 11, 2017), https://www.newyorkfed.org/research/college-labor-market/college-labor-market_wages.html; U.S. Bureau of Labor Statistics, *Consumer Price Index* (2005 – 2015), https://www.bls.gov/cpi/cpi_dr.htm.

[5] *See* The Institute for College Access and Success (TICAS), *Student Debt and the Class of 2015* (Oct. 2016). http://ticas.org/sites/default/files/pub_files/classof2015.pdf; TICAS, *Student Debt and the Class of 2005* (Aug. 2006), http://ticas.org/sites/default/files/legacy/files/pub/2005_State_by_State_report_FINAL.pdf.

[6] *See* TICAS, *Student Debt and the Class of 2015* (Oct. 2016), http://ticas.org/sites/default/files/pub_files/classof2015.pdf.

recession levels. In contrast, the share of borrowers with delinquent student loans remains near its recession-era peak.[7]

- **Millions of student loan borrowers are now in default, despite the range of default-prevention options available.** The Department of Education estimates over 8 million student loan borrowers are now in default on a federal student loan, a number larger than the population of 38 states.[8] In 2016 alone, nearly 1.2 million borrowers defaulted on a federal Direct Loan – more than two borrowers every minute.[9] The Bureau estimates that more than one-in-four borrowers are either delinquent or in default on their student loans.

- **While struggling student loan borrowers are widespread, data shows a strong relationship between the minority population in a zip code and its delinquency rate.** Recent research shows that zip codes with higher shares of African Americans and Latinos suffer disproportionately higher rates of student loan delinquency.[10] The relationship between zip code and delinquency rates can also be seen across various regions of California, including communities in Los Angeles and the Bay Area, where borrowers show higher rates of financial distress.

For every borrower who misses a payment or slides into default, there may be others affected by the stress of managing this debt and who are barely keeping their heads above water. In recent months, researchers quantified what we've heard from tens of thousands of consumers with student debt – that this debt is straining household balance sheets and influencing consumers'

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[7] *See* FRBNY, *Household Debt and Credit Report Q42016* (2016), https://www.newyorkfed.org/microeconomics/hhdc.html.

[8] *See* U.S. Census Bureau, *Annual Estimates of the Resident Population: 2016 Population Estimates* (Dec. 2016), https://www.census.gov/data/tables/2016/demo/popest/state-total.html.

[9] U.S. Dept. of Education, *New Direct Loan Defaults* (accessed on March 7, 2017), https://studentaid.ed.gov/sa/sites/default/files/fsawg/datacenter/library/DLEnteringDefaults.xls (showing data for federal fiscal year 2016).

[10] *See* Washington Center for Equitable Growth, *How the student debt crisis affects African Americans and Latinos* (Feb. 17, 2016), http://equitablegrowth.org/how-the-student-debt-crisis-affects-african-americans-and-latinos/.

behavior in a myriad of ways.[11] Researchers have also found a troubling connection between higher debt burdens and other economic challenges like material or health care hardship.[12]

However, some observers have questioned the economic and behavioral effects of student debt, citing the widespread availability of affordable repayment options, like income-driven repayment (IDR). But these assertions only tell half of the story. While most borrowers with federal student loans have a right to pay based on how much money they earn, borrowers report a wide range of industry practices and policy pitfalls created unnecessary barriers to payment relief, contributed to borrower financial distress in the short-term, or even extended borrowers' debt by months or years.

Taken together, these observations paint a bleak picture—millions of student loan borrowers, particularly those who have struggled to realize the economic gains historically associated with higher education, may face a range of severe, but potentially avoidable, consequences.

Borrowers encounter problems at every stage of repayment

Borrowers depend on private companies to help them manage their debt. High quality servicing can help borrowers enroll in affordable payment plans, take advantage of forgiveness and other benefit programs, and avoid delinquency and default. But, for too many borrowers, student loan servicers – the companies responsible for sending borrowers' monthly bills, maintaining borrowers' student loan accounts, and helping them enroll in alternative repayment plans – fall short.

A wealth of recent data and research from government agencies, researchers, and regulators offers insight into the scale of the problem. For example:

- **Borrowers in default may be eligible for a substantially lower payment under an income-driven repayment plan.** A 2015 working paper analyzing loan performance data provided by the Department of Education and administrative wage data by the Department of the Treasury observed that 70 percent of borrowers in default

[11] *See* Consumer Financial Protection Bureau (CFPB), *Student Loan Affordability: Analysis of Public Input on Impact and Solutions* (May 8, 2013), files.consumerfinance.gov/f/201305_cfpb_rfi-report_student-loans.pdf.

[12] See Mathieu R. Despard, et al., Student Debt and Hardship: Evidence from a Large Sample of Low- and Moderate-Income Households, 70 Children and Youth Services Review (Nov. 2016).

in their sample had income characteristics that suggest substantial financial hardship.[13] Based on the Bureau's calculation, depending on a borrower's family size, an average borrower with these characteristics should be entitled to make a $0.00 monthly payment under widely available IDR plans.[14]

- **For borrowers who are able to successfully enroll in an alternative repayment plan, servicing challenges can still hinder their ability to stay on track and maintain an affordable monthly payment.** According to data released by the Department of Education in 2014, nearly 60 percent of borrowers missed their annual deadline to recertify under an IDR plan, triggering a spike in monthly payment and potentially increasing the total cost of their debt through capitalization of unpaid interest and other negative consequences.[15] The Bureau has warned consumers that servicing practices related to the handling of IDR renewal applications may lead to substantial borrower distress.[16]

- **These challenges are perhaps even more troubling for some of the most vulnerable borrowers who seek to cure a defaulted loan through rehabilitation.** A recent Bureau report projected that as a result of servicing and other program failures, one-in-three rehabilitated borrowers will re-default within the first two years despite likely qualifying for a zero dollar payment under an IDR plan.[17] As a consequence, the Bureau estimates that these borrowers could incur $125 million in unnecessary interest charges over this period, due to lost subsidies and other benefits.

- **Servicing breakdowns can wreak havoc on servicemembers, veterans, and military families.** The Bureau has released several reports documenting student loan

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[13] *See* CFPB, *2015 Annual Report of the CFPB Student Loan Ombudsman* (Oct. 2015), http://files.consumerfinance.gov/f/201510_cfpb_annual-report-of-the-cfpb-student-loan-ombudsman.pdf.

[14] *See id.*

[15] *See id.*

[16] *See* CFPB, *When you make student loan payments on an income-driven plan, you might be in for a payment shock* (Aug. 17, 2015), https://www.consumerfinance.gov/about-us/blog/when-you-make-student-loan-payments-on-an-income-driven-plan-you-might-be-in-for-a-payment-shock/.

[17] For further discussion, see CFPB, *2016 Annual Report of the CFPB Student Loan Ombudsman* (Oct. 2016), http://www.consumerfinance.gov/data-research/research-reports/2016-annual-report-cfpb-student-loan-ombudsman/.

complaints from military borrowers.[18] For example, servicemembers continue to report being guided into less favorable options by their student loan servicers, including military deferment or forbearance, without being notified of the additional costs associated with these options, and despite actively seeking information and assistance concerning other forms of repayment.[19]

- **Vulnerable borrowers, including older borrowers and borrowers with severe disabilities, may be eligible for substantial debt relief, but recent evidence suggests these borrowers miss out on programs that can save them thousands.** For borrowers who are disabled or who experience persistent economic distress and no wage growth, a range of consumer protections are available to ensure these borrowers are not driven into poverty by their student debt. For example, the Department of Education found that approximately 387,000 borrowers owing over $7.7 billion were positively identified as eligible to have their loans forgiven because they were identified as being totally and permanently disabled (TPD) by the Social Security Administration – however, these borrowers had never completed the necessary paperwork to have their loans discharged.[20] Many in default had their wages garnished or Social Security benefits offset, while others continued to make unnecessary monthly payments. In an audit finding released late last year, the Government Accountability Office found that tens of thousands of older consumers were pushed into poverty when their Social Security benefits were offset to repay student debt, despite income

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[18] *See, e.g.*, CFPB, *Overseas and Underserved: Student Loan Servicing and the Cost to our Men and Women in Uniform* (July 7, 2015), https://www.consumerfinance.gov/reports/overseas-underserved-student-loan-servicing-and-the-cost-to-our-men-and-women-in-uniform/; CFPB, *The Next Front? Student Loan Servicing and the Cost to our Men and Women in Uniform* (Oct. 18, 2012), files.consumerfinance.gov/f/201210_cfpb_servicemember-student-loan-servicing.pdf; CFPB, *Veterans: Take advantage of student loan forgiveness, but don't let it damage your credit* (Nov. 17, 2014), https://www.consumerfinance.gov/about-us/blog/veterans-dont-let-student-loan-forgiveness-damage-your-credit/.

[19] For further discussion, see CFPB, *Remarks by Seth Frotman to the Judge Advocate General's Legal Center and School* (Oct. 2016), http://files.consumerfinance.gov/f/documents/201610_cfpb_Frotman-Remarks-JAG-School.pdf.

[20] *See* U.S. Dept. of Education, *U.S. Department of Education Acts to Protect Social Security Benefits for Borrowers with Disabilities* (Apr. 12, 2016), https://www.ed.gov/news/press-releases/us-department-education-acts-protect-social-security-benefits-borrowers-disabilities.

characteristics that could entitle many of these borrowers to a zero dollar monthly "payment" under a range of widely available federal debt relief programs.[21]

The Bureau has heard from tens of thousands of borrowers who are struggling to keep up with their payments because they are unable to access essential consumer protections. It's clear that the status quo isn't working. But to understand why, it's important to understand how we got here.

The Great Recession and the student debt boom

Conventional wisdom often points to the rapid rise in college tuition as the sole driver of increased student indebtedness. We also know that increased enrollment at high-cost career and for-profit schools has directly contributed to increased student borrowing.[22] While there is no question that rising college costs contribute to the recent boom in student borrowing, this observation downplays the effects of a potential cost shift from parents to students.

For much of our recent past, families have shared the economic burden of paying for college, in part because parents drew on a combination of income, savings, home equity, and retirement savings in order to contribute. These family contributions, when combined with a students' income from part-time work, and paired with a combination of student loans and grants, were sufficient to leave a typical borrower with a modest debt load at graduation. As tuition rose in the years preceding the Great Recession, this equilibrium was tenuous, but it held. But then the recession hit.

During the recession, millions of families suffered an economic shock. Widespread unemployment, combined with drops in home equity, investments, and retirement savings, battered household balance sheets. As wealth declined, particularly for middle-class families, many students faced the choice of taking on student debt, or not going to college at all. To put it

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[21] *See* Govt. Accountability Office, Social Security Offsets: Improvements to Program Design Could Better Assist Older Student Loan Borrowers with Obtaining Permitted Relief, GAO-17-25 (Dec. 2016), www.gao.gov/assets/690/681722.pdf.

[22] *See* Adam Looney & Constantine Yannelis, *A Crisis in Student Loans? How Changes in the Characteristics of Borrowers and in the Institutions They Attend Contributed to Rising Loan Defaults*, The Brookings Institution (Fall 2015), https://www.brookings.edu/bpea-articles/a-crisis-in-student-loans-how-changes-in-the-characteristics-of-borrowers-and-in-the-institutions-they-attended-contributed-to-rising-loan-defaults/.

another way, rising student debt levels aren't just a byproduct of rising sticker price, but result, in part, from a cost shift from within the household from the family to the individual student.[23]

Researchers, policymakers and advocates have cited the "college wage premium" to make a public case for why increasing levels of student indebtedness shouldn't deter students from attending college. And college does pay off for many. However, observers too often confuse the soundness of the supposed investment in college with an assertion that increased student debt, and the attendant breakdowns these borrowers may encounter in repayment, are not problems that demand immediate attention. This misses the mark. Millions of borrowers continue to struggle under the strain of historic levels of student debt.

A growing body of evidence suggests that rising levels of student loan indebtedness may also have spillover effects on other segments of the economy, potentially limiting borrowers' access to credit, diminishing savings, reducing homeownership, threatening retirement security, and inhibiting borrowers from pursuing careers as healthcare providers and educators in underserved communities, or as entrepreneurs.[24]

We should not be cavalier about the burden we're asking these students to shoulder – "other people have it worse" offers little solace when far too many of the borrowers who have done everything we've asked of them still struggle to afford a down payment, start a family, or save for retirement. Nor should we ignore the potential risk to society and the broader economy, as rising student indebtedness influences changes in saving and spending by a generation of consumers.

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[23] Gene Amromin, Janice Eberly, & John Mondragon, *The Housing Crisis and the Rise in Student Loans* (Oct. 20, 2016), https://www.fdic.gov/news/conferences/consumersymposium/2016/documents/Mondragon_paper.pdf.

[24] *See, e.g., id.*; CFPB analysis of Fed. Res. Board, *2013 Survey of Consumer Finances*, http://www.federalreserve.gov/econresdata/scf/scfindex.htm (last visited Dec. 29, 2016) (showing that borrowers with student loan debt nearing retirement have less saved than their counterparts without student loan debt); Pew Charitable Trusts, *Student Debt Means Many New Graduates Can't Afford to be Teachers or Social Workers* (Apr. 5 2006), Project on Student Debt, http://www.pewtrusts.org/en/about/news-room/press-releases/2006/04/05/student-debt-means-many-new-graduates-cant-afford-to-be-teachers-or-social-workers (reviewing studies that show individuals with student loans are less likely to enter into public service fields like teachers and social workers); Gallup Purdue Index 2015 Report, *Great Jobs, Great Lives. The Relationship Between Student Debt, Experiences and Perceptions of College Worth* (2015), http://www.gallup.com/reports/197144/gallup-purdue-index-report-2015.aspx (finding that student loan borrowers are more likely to delay buying a home or car, starting a business, or going to graduate school than their peers without student loan debt).

As lending and borrowing has changed, so has the regulatory landscape

In 2007, more than 80 percent of all new student loans were made by banks and other private student lenders, the vast majority of which carried federal guarantees.[25] For two generations, guaranteed federal loans made through the Federal Family Education Loan program (FFELP) had been the primary source of loans for families seeking to borrow to go to college.[26] However, in 2008, banks and other private lenders expressed concerns that the financial crisis could lead the bank-based lending model to fail and that students would not be able to access federal loans.[27] At the federal level, policymakers responded to these concerns in stages – first, by propping up the student loan industry and protecting students from the effects of this potential disruption.[28] Second, Congress eliminated the bank-based federal loan program entirely.[29] Since 2010, greater than 90 percent of all new student loans have been made directly by the Department of Education through the Direct Loan program.[30]

Today, the Department of Education owns over $1 trillion in outstanding student loans and relies on a collection of nonbank private sector companies to service this debt.[31] These

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[25] *See* CFPB, *Private Student Loans* (2012), files.consumerfinance.gov/f/201207_cfpb_Reports_Private-Student-Loans.pdf; U.S. Dept. of Education, *Federal Student Aid Annual Report FY2007* (2007). https://studentaid.ed.gov/sites/default/files/fsawg/static/gw/docs/07AnnualReport.pdf.

[26] *See* CFPB, *Private Student Loans* (2012), files.consumerfinance.gov/f/201207_cfpb_Reports_Private-Student-Loans.pdf.

[27] *See* U.S. Dept. of Education, *2010 ECASLA Report* (June 2010), https://studentaid.ed.gov/sa/sites/default/files/fsawg/datacenter/library/June2010ECASLAReport.pdf ("As a result of disruptions in the finance markets in early 2008, many FFEL lenders raised concerns that increases in FFEL financing costs could result in those lenders opting out of the FFEL program in the 2008-2009 academic year. . . . Without proactive Federal intervention, there was serious concern that large numbers of students would find their source of Federal student loans disrupted when schools had little time to shift to other lenders or to the Direct Loan program.").

[28] *See id.*

[29] *See id.* For further discussion, see CFPB, *Student Loan Servicing* (2015), files.consumerfinance.gov/f/201509_cfpb_student-loan-servicing-report.pdf.

[30] *See, e.g.*, U.S. Dept. of Education, *Federal Student Aid Annual Report FY2016* (Nov. 14, 2016), https://studentaid.ed.gov/sa/sites/default/files/FY-2016-Annual-Report.pdf; Measure One, *Private Student Loan Report* (2016), https://www.measureone.com/psl.php.

[31] *See* U.S. Dept. of Education, *Federal Student Aid Annual Report FY2016* (Nov. 14, 2016), https://studentaid.ed.gov/sa/sites/default/files/FY-2016-Annual-Report.pdf; *see also* CFPB, *Student Loan Servicing* (2015), files.consumerfinance.gov/f/201509_cfpb_student-loan-servicing-report.pdf.

companies historically had been subject to limited regulation and oversight, principally in their capacity as service providers to or as affiliates of the banks and other lenders that made federally guaranteed loans.[32] With the elimination of the bank-based federal loan program, this limited prudential oversight regime no longer even covers servicing of the vast majority of new loans – which exposed important gaps in the patchwork of federal and state oversight. In effect, without a formal role for regulated entities as lenders, the student loan servicers servicing debt for tens of millions of Americans fell outside of the existing framework for oversight.

However, the Bureau has brought to bear a unique set of oversight tools in order to change this–

- **Strengthening supervision of student loan servicers.** Historically, nonbank providers of financial products and services, including student loan servicers, credit bureaus, debt collectors, and others, have not been subject to the same level of federal oversight as banks and credit unions. For more than five years, the Bureau has been building an examination program that focuses on rooting out illegal practices at both banks and certain nonbanks, including the larger nonbanks in the student loan servicing market. This expanded oversight is an important step to protect consumers and bring consistency to much of a fragmented market by protecting consumers regardless of the kind of student loans they borrow or the type of company on the other end of the line.

- **Increasing transparency in the student loan servicing market.** Building on our continuing oversight work in this market, the Bureau proposed a new framework to monitor student loan servicing – collecting quarterly data from the nation's largest student loan servicers focused on many of the servicing practices that are critical to ensuring borrower success. The data we are proposing to collect would inform our ongoing work to protect "at-risk" student loan borrowers by taking a closer look at borrowers who face the greatest risk of default – borrowers with federal loans seeking to access affordable payments and borrowers with private student loans who experience financial distress.

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[32] *See* CFPB, *Student Loan Servicing* (2015), files.consumerfinance.gov/f/201509_cfpb_student-loan-servicing-report.pdf ("Historically, state and federal regulatory agencies have largely overseen student loan servicers as service providers to or as affiliates of financial institutions under their purview. This may have fragmented oversight responsibilities and inadvertently created barriers for regulators and law enforcement agencies seeking to understand and improve practices for all student loan borrowers.").

Widespread problems reported to us by consumers, as well as violations uncovered through our supervisory and enforcement work, indicate that there is much work to be done to clean up and reform the student loan servicing industry to ensure borrowers are protected.

Ending illegal student loan servicing practices

The Bureau has made it a priority to take action against companies that are engaging in illegal servicing practices. Our examination program and our Office of Enforcement have taken action to address many of these illegal practices.

For example, we have alleged in public enforcement actions that student loan servicers were:

- Illegally steering borrowers into forbearance – a repayment option designed to assist borrowers experiencing short-term financial hardship – when borrowers have a right under federal law to enroll in repayment plans that allow for lower monthly payments over the long-term;[33]

- Allocating partial payments in a way that maximizes fees and fails to give consumers who are repaying two or more loans effective choices about how to apply payments;[34]

- Providing misinformation on borrowers' billing statements, inflating the minimum amount owed;[35] and

- Making illegal debt collection calls to borrowers early in the morning and late at night, often excessively.[36]

In addition, here is a sampling of what our supervisory work has found at one or more student loan servicers:

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[33] *See* CFPB, *CFPB Sues Nation's Largest Student Loan Company Navient for Failing Borrowers at Every Stage of Repayment* (Jan. 18, 2017), https://www.consumerfinance.gov/about-us/newsroom/cfpb-sues-nations-largest-student-loan-company-navient-failing-borrowers-every-stage-repayment/.

[34] *See* CFPB, *CFPB Takes Action Against Wells Fargo for Illegal Student Loan Servicing Practices* (Aug. 22, 2016), https://www.consumerfinance.gov/about-us/newsroom/cfpb-takes-action-against-wells-fargo-illegal-student-loan-servicing-practices/.

[35] *See* CFPB, *CFPB Orders Discover Bank to Pay $18.5 Million for Illegal Student Loan Servicing Practices* (July 22, 2015), http://www.consumerfinance.gov/about-us/newsroom/cfpb-orders-discover-bank-to-pay-18-5-million-for-illegal-student-loan-servicing-practices/

[36] *See id.*

- Unfairly denying, or failing to approve, IDR plan applications that should have been approved on a regular basis, causing borrowers to make higher payments and subjecting them to unnecessary interest capitalization; [37]

- Failing to inform borrowers and co-signers that using forbearance may delay, or even permanently foreclose, eligibility for co-signer release;[38]

- Illegally increasing borrowers' interest rates following a loan sale and subsequent internal servicing conversion;[39]

- Illegally auto-defaulting consumers when a loan's co-signer filed for bankruptcy, regardless of whether the borrower was current on all payments, where the Whole Loan Due clause was ambiguous;[40]

- Failing to provide an effective choice on how payments should be allocated among multiple loans where the lack of choice can cause a financial detriment to consumers;[41]

- Deceiving borrowers who have made extra payments on their loans about how much interest would accrue or had accrued, and how that would affect the application of consumers' payments when the borrower began making payments again;[42]

- Making misrepresentations to consumers that late fees may be charged on loans held by the Department of Education. While Department of Education loan notes allow for the

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[37] *See* CFPB, *Supervisory Highlights: Issue 13, Fall 2016* (Nov. 2016), https://www.consumerfinance.gov/documents/1389/Supervisory_Highlights_Issue_13__Final_10.31.16.pdf.

[38] *See* CFPB, *Supervisory Highlights: Issue 10, Winter 2016* (Mar. 2016), http://files.consumerfinance.gov/f/201603_cfpb_supervisory-highlights.pdf.

[39] See id.

[40] *See id.*

[41] *See* CFPB, *Supervisory Highlights: Issue 13, Fall 2016* (Nov. 2016), https://www.consumerfinance.gov/documents/1389/Supervisory_Highlights_Issue_13__Final_10.31.16.pdf.

[42] *See id.*

charging of late fees, the Department of Education does not, at this time, charge late fees on its loans and it instructs its servicers not to do so;[43] and

- Illegally threatening wage garnishment against borrowers who were not eligible for garnishment, and misleading borrowers about when the garnishment would begin.[44]

State leadership and student loan servicing reform

As the Bureau pursued a range of supervisory and enforcement work in this market, state policymakers across the country considered steps to expand oversight and accountability tools at the state level.

California has been a leader on this approach. Building on the foundation laid by this legislature and by Governor Brown, California has positioned itself to protect Californians with student debt. Over 3.7 million Californians have student debt, and depend on student loan servicers to manage their accounts, process monthly payments, provide timely accurate information about repayment options and respond when borrowers experience financial hardship.[45] As I've explained, many of these borrowers face a road to repayment marked by challenges at every bend. Particularly for borrowers seeking to exercise their right under federal law to an affordable monthly payment, the path forward can be precarious. They now have a strong ally in the State of California to ensure that student loan servicers comply with federal and state consumer laws.

I'm pleased to join Senior Deputy Commissioner Scott Cameron, who leads the Department of Business Oversight's Division of Financial Institutions (DFI) and shares a data-driven vision for how California can continue to lead on these critical issues. I wanted to close by offering our continued support to Commissioner Owen and the DBO, and to the California legislature, as you work to protect Californians with student debt, and to highlight three key areas where continued federal and state partnership offers immediate benefits for consumers:

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[43] *See* CFPB, *Supervisory Highlights: Issue 9, Fall 2015* (Oct. 2015), http://files.consumerfinance.gov/f/201510_cfpb_supervisory-highlights.pdf

[44] *See id.*

[45] *See* FRBNY, *Student Loan Borrowing by State* (2012), https://www.newyorkfed.org/medialibrary/Interactives/householdcredit/data/xls/student-loan-by-state.xlsx.

- **Providing rigorous oversight in every corner of the student loan servicing market.** Much of our discussion today has focused on problems and illegal practices at our nation's largest student loan servicers. Although expanded state oversight over these large, complex companies is welcome news for millions of borrowers, states can also play a role in overseeing the dozens of smaller companies that service loans made by private lenders and keeping an eye on new entrants into this market, where their practices may present risks to consumers. This role may be particularly important as private lending and refinance activity continues to grow and if policymakers at the federal level consider new policies that may drive families to borrow more from private lenders, outside the federal student aid system. Because of steps taken in California, federal and state regulators can "cover the waterfront" – ensuring Californians are treated fairly, regardless of the size or location of the company managing their loans.

- **Driving better practices by demanding better data.** Both federal and state regulators depend on accurate, timely data to better examine how servicers operate, to identify practices that pose risks to consumers, and to inform additional law enforcement and oversight work. As California continues to build out its oversight function and assess its own needs, data from student loan servicers can help inform oversight work across the country – for example, through targeted oversight to assess practices affecting the hundreds of thousands of state and local government, education and non-profit workers in California. I think the old cliché is particularly apt in this context – "sunshine can be the best disinfectant."

- **Sharing knowledge and insights from state oversight to inform federal policymaking.** California examiners and law enforcement officials are well positioned to identify issues that may be unique to that state, to an individual servicer's business practices, to a particular segment of consumers, or to the market as a whole. States have a unique ability to work on a granular level while simultaneously spotting trends and systemic issues at a state or regional level. This knowledge and experience can be shared with the Bureau, and with other regulators, which may have different tools and additional expertise to develop that picture and share it with the public more broadly. Through close state-federal coordination on student loan servicing oversight, the Bureau and other federal policymakers can have the benefit of unique insights developed on the ground by states in a historically opaque marketplace.

Close coordination between federal and state regulators is critical to ensuring that borrowers can depend on high quality student loan servicing, subject to rigorous oversight, whether their servicer is a large public company or a small not-for-profit. State and federal initiatives to root out harms in this market are critical to protect consumers and can serve as an important component of our broader work to reform the student loans servicing market.

Moving forward together

As I noted above, a series of economic and policy changes over the last two decades continue to drive historic levels of debt owed by students and their families, and we continue to see the consequences of these changes. We have also seen student loan servicers engaged in illegal practices, adding insult to injury for struggling student loan borrowers. If we are to ask our citizens to take on student debt to get the degree, we must also redouble our efforts to ensure a road to repayment that is free from illegal practices.

The problems student loan borrowers encounter today resemble the problems faced by struggling homeowners when dealing with their mortgage servicers – particularly those homeowners who sought to take advantage of federal foreclosure prevention initiatives in the years following the financial crisis.

When loan servicers can operate in the shadows, free from rigorous federal and state oversight, consumers too often pay the price. Policymakers and regulators at all levels have made strides to improve oversight and halt illegal student loan servicing practices while taking important lessons from the last crisis as we work to prevent the next one. We can't go back.

I would like to thank you again for the opportunity to address the committee today and discuss this important topic. The Bureau looks forward to continuing our important work together, and in particular, our work to increase accountability in this market.

S·L·S·A

STUDENT LOAN SERVICING ALLIANCE

Testimony of Winfield Crigler
Executive Director
Student Loan Servicing Alliance (SLSA)
March 22, 2017

Thank you, Chairman Dodd, Vice Chairman Vidak, and other honorable Members for your invitation to speak today. I am executive director of the Student Loan Servicing Alliance, or SLSA, a non-profit, membership organization of federal student loan servicers. SLSA has approximately 25 servicer members, and together we service about 95 percent of all outstanding student loans. On behalf of our members, I am proud to tell you about the work student loan servicers perform to help borrowers manage repayment.

The Committee staff was kind enough to make copies of a PowerPoint presentation that provides a lot of background information on student loans and student loan servicing. There are approximately $1.4 trillion in outstanding student loans, with the lion's share being federal loans -- $1.3 trillion. Over $1 trillion (and the fastest growing piece) is made up of loans that are made and/or held by the U.S. Department of Education. I will therefore focus on federal loans in my testimony today, but I am happy to take questions on any element of servicing.

To begin, I'd like to share a few insights and trends related to student loans.

Most students who graduate from college have both reasonable loan balances and the income to support repayment. That fact is often lost when the media and reports only focus on anecdotes.[1] According to the College Board, however, nearly 40 percent of students don't borrow at all. Those who do borrow graduate with an average of $28,100 in debt.[2]

We should also review the latest trends in delinquencies and defaults. If you simply read the stories, you would think that defaults are increasing at an alarming pace. But the facts tell a different story. From Federal Student Aid data, serious delinquency (90+ days) rates are down 24 percent in three years.[3]

There are reports that point to the fact that the cumulative number of defaults continues to rise. Of course they do - the federal government does not ever write off a defaulted loan. Some of these defaults are decades old. But the fact is that the rate at which student loan borrowers defaulted has dropped for a second consecutive year. In fact, the actual number of direct loan borrowers defaulting declined by five percent last year, even though the number of borrowers repaying their loans increased.

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[1] Matt McDonald and Pat Brady, "Media Coverage of Student Debt," Hamilton Place Strategies: www.hamiltonplacestrategies.com/insights/media-coverage-student-debt/
[2] College Board, Trends in Student Aid: https://trends.collegeboard.org/student-aid
[3] FSA Data Center, "Direct Loan Portfolio By Delinquency Status"

That said, there are some borrowers who struggle to repay their loans. The borrowers who struggle most are often those who did not finish college. A White House report published last year by the Obama administration showed that two-thirds of defaults came from borrowers with less than $10,000 in balances. One third had a balance of less than $5,000.[4] At these levels, it is clear these are borrowers who went to college, borrowed, but did not complete their degree. Those who did not complete are three-times as likely to default as those who achieved their degree.

I provide this context because I think it's important to understand the issue and how the borrowers facing the most challenges are not necessarily the ones you hear about or read about. We need to have better information to these borrowers *before they borrow* to stress the importance of completion and its relationship to borrowing success.

The decision to borrow, and how much, is not part of the servicing system. Servicers do not have anything to do with where a student choses to go to college or how much they borrow to pay for that education. In the federal student loan process, the borrower decides to attend a specific college or university, is awarded financial aid (including loans) by the college, signs a promissory note provided by the U.S. Department of Education, and undergoes loan counseling mandated by the Higher Education Act through the college. The student loan servicer only becomes involved after the borrower has taken all of those steps, and has already incurred the debt.

The federal student loan programs are too complex. The federal student loan programs are highly and specifically regulated in terms of borrower treatment. There are both statutory and regulatory requirements for loan servicing. These include specific disclosures and notices at various points in the loan cycle, due diligence requirements in terms of how often delinquent borrowers must be contacted, and how they must be contacted, including by telephone. There are certain deferments to which borrowers are entitled under the terms of the Higher Education Act, and discretionary forbearances which are administered in accordance with the lender's written policy and U.S. Department of Education regulations and guidance. In addition, the federal loan servicers who service Department-of-Education-owned loans are contractors to the Department, and must follow detailed and proscriptive sub-regulatory guidance issued by the Department.

There are multiple types of federal loans and 16 repayment plans, including nine possible versions of plans in which the monthly payment amount is based on income. There are eight forgiveness programs, and 32 deferment and forbearance options. All of these plans have different statutory and regulatory requirements in terms of eligibility. The form for signing up for an income-driven repayment plan is 10 pages long.

An examination of the student loan complaints filed to date with the Consumer Financial Protection Bureau bears out this complexity – more than 85 percent of all student loan complaints with the CFPB have been resolved "closed with explanation." A recent analysis by one of SLSA's larger servicers found that only 10 percent of federal loan complaints and 1 percent of private student loan complaints were related to an actual servicing error. The majority of issues raised in connection with federal loans involved a consumer disagreeing with federal law or policy, including federal requirements on credit reporting, repayment options, and loan forgiveness. The most common issue for private

[4] : President's Council of Economic Advisors, "Investing In Higher Education: Benefits, Challenges, and The State Of Student Debt," July 2016

loans involved requests for lower payments, including requests for repayment options that are unique to federal loans (i.e., income-based repayment).

We have concerns about how state regulation of federal loan servicers will work, and whether it will increase the complexity. The entire $1 trillion in federal loans issued and/or held by the U.S. Department of Education is serviced by nine entities acting as contractors for the federal government on multiple servicing platforms or systems. The Department is currently in the midst of a contract solicitation that will radically change the servicing of federal loans. Under the new contract, all Department-owned loans will be serviced on a single platform/servicing system. The contract procurement contains very detailed specifications for what the servicer must do in all situations. The contract was expected to be awarded early this year, but has been held up by a bid protest. Once the contract is in place, it is hard to imagine how state laws would apply in many instances. Many of the practices that the CFPB criticizes the servicing industry for are things that are hard-wired into the servicing system, and automatic. For example, if a state disagrees with the way that payments have been processed under the federal contract, and withdraws the servicer's license, it means that no borrower in that state will be able to have their federal student loans serviced at all. This result is unimaginable.

Many FFELP and private student loan servicers are relatively small, state-based entities created by the legislature of a state to serve the students and families of that state. They are only permitted to make student loans to residents of their state or students attending colleges and universities in the state. Given that recent graduates are a very mobile population, however, it is likely that some of their borrowers will end up moving to another state, a fact that is beyond the servicer's control. The costs of licensure and examination in multiple states will be prohibitively expensive for these small entities. They will be forced to transfer the loans to another servicer, which will be very disruptive to the borrower, or they may be pushed to exit the servicing business entirely. The latter is not an empty threat; two of SLSA's members exited the servicing business altogether in the last year because of the increased costs of servicing student loans.

Federal loan servicers under contract to the Department of Education under the current contract can be paid no more than $34.20 per borrower per year, regardless of the number or type of loans the borrower may have. That is for a loan in repayment. As a loan becomes increasingly delinquent, the servicer is paid less and less. These fees are far lower than mortgage servicing fees. The money to pay for licensing and examination fees in various states has to come out of this same fee, and will take away from servicers' ability to do more to help struggling borrowers.

With respect to California and other states considering regulating student loan servicers, our concern is assuring that the legislation does not impose requirements that conflict, directly or indirectly, with federal requirements. Further, we have great concerns over the breadth and vagueness of regulatory structure that the new statute imposes. We are anxious to work with you and other states to eliminate these conflicts and create increased clarity around the statute's requirements.

Student loan servicers help millions of consumers repay their education loans, and avoid the negative consequences of default. Servicers help ensure student loan borrowers, many of whom have limited financial experience, know about and can take advantage of the various repayment options available to them. Borrowers rely upon the consistent, even application of federal regulations by student loan servicers in order to navigate the ocean of benefits and requirements that surround student loans. Servicers work tirelessly on behalf of borrowers to enroll them into the right payment plan for their individual circumstance, while helping them avoid delinquency and default. Since June 2013, the number of Direct Loan borrowers in income-driven repayment plans has grown from 1.58 million to 5.58 million.[5]

Imposing conflicting information, or additional procedural requirements, on borrowers who can immediately obtain assistance with their student loans directly from their servicer is bound to cause confusion for borrowers. They may then fail to seek help from their servicer and delay a satisfactory resolution to their concerns.

Bottom line: there are better solutions to address the real problem of student loan debt. Congress is expected to reauthorize the Higher Education Act during this Congress, and SLSA is working hard to urge legislators to simplify the federal student loan programs, including the number of repayment plans, and the complex rules governing their terms and conditions. In addition, the counseling provisions must be strengthened, and more counseling needs to take place before the borrower takes out a loan.

On the state level, some legislatures have adopted or are considering legislation that requires colleges and universities to provide the borrower with better information about the loans they are about to take out, including the monthly payment amount that the borrower can be expected to pay, and the cumulative cost of borrowing for the next several years. In Indiana, for example, the legislature required public colleges and universities to send borrowers an annual letter with information on the amount they have borrowed to date; as a result of these letters, students in Indiana are borrowing less.

Several states are considering the creation of a new position of student loan ombudsman to work with borrowers in the state to answer their questions and deal with their complaints. We already work closely with the Office of the Ombudsman at the U.S. Department of Education. Servicers would be more than happy to work with ombudsmen financed and operated by the state, and to share our knowledge of the complexities of federal student loans, to help them better serve borrowers in the state. We think that having a neutral and trusted third party deliver the same facts as the servicer would be helpful to borrowers.

As indicated above, the vast majority of complaints from student loan borrowers tend to arise from a misunderstanding of the terms of their loans, which are statutory or regulatory, and cannot be waived or changed by a loan servicer. Ensuring that student loans are treated the same for borrowers across the country ensures that borrowers can be confident in their understanding of their opportunities to succeed in repayment and maintain a healthy financial history.

I would be more than happy to take questions and to provide additional information about student loan servicing.

[5] FSA Data Center, "Direct Loan Portfolio By Repayment Plan"

OVERVIEW OF FEDERAL AND PRIVATE STUDENT LOAN SERVICING

Winfield Crigler
Executive Director
Student Loan Servicing Alliance (SLSA)
March 2017

Student Loan Servicing Alliance (SLSA)

- SLSA is a non-profit trade association (501(c)(6))
- 21 servicer members, all of whom service FFELP (federally guaranteed) loans, and 9 of whom also service federal Direct Loans
- Many SLSA members also service private student loans
- SLSA members service over 95% of student loans for over 40 million different borrowers
- SLSA Mission
  - Compliance focus
  - Standardization and simplification for users
  - Promote best practices in student loan servicing

SLSA Servicers

- Size of the 21 servicers ranges from large to very small
  - Navient is the largest member, with approximately 7,000 employees total
  - 3 members with between 2,000-3,000 employees
  - Handful of members with less than 50 employees
  - Most of the rest have a few hundred employees
- SLSA members may be for-profit companies (some publicly held), not-for-profit entities, state-chartered organizations, and state agencies
- Many of the non-profit and State-chartered members were created in order to support higher education in a particular State and are limited in who they can make loans to (state nexus required)
  - Administer the federal student loan program in the State
  - Make State student loans (which are considered to be private education loans)
  - Run State higher education grant programs
  - Conduct consumer financial literacy activities

Student Loan Overview

- Approximately $1.4 Trillion in total US student loans (federal and private) to over 44 million borrowers
- Private loans make up only 7.5% of the total (a little over $100 Billion)
- 92.5% of the total are Federal Loans ($1.3 Trillion)
  - Direct Loans (loans that were made by and are owned by the federal government) = $950 Billion (74% and growing)
  - FFELP Loans (loans that were made by banks and other lenders and guaranteed by the federal government) = $335 Billion (26% and shrinking)
    - Less than $200 Billion in FFELP loans is serviced by servicers for commercial lenders
    - US Department of Education (ED) owns over $100 Billion of FFELP loans
  - Perkins Loans (loans made by some schools to their neediest students using federal funds) = $8 Billion

Federal Student Loans

- Federal student loans are a government program – created by statute (the Higher Education Act of 1965) and regulated by the US Department of Education (ED)
- Goals of access to higher education and affordability
- No credit check or test of ability to repay – only criteria is attendance at a school that meets ED standards for participation
- Taxpayer-funded borrower benefits that are not found in regular consumer loans
  - Interest rates that may be below-market
  - Periods of deferment during which the government pays the interest on the loan
  - Generous forgiveness and discharge provisions
  - Income-based repayment and forgiveness

Federal Student Loans

- FFELP Program ended by Congress and President Obama – no new loans since June 30, 2010
- Today almost all federal student loans are made through the Direct Loan Program
- Outstanding federal student loans have more than doubled since the beginning of the recession
  - less than $600 billion in 2008
  - over $1.4 trillion today
- Percentage of students borrowing increasing each year – 70% of students in the class of 2015 had student loans.
- Average debt for a member of the class of 2014 was just under $30,000

Federal Student Loans

- Federal contract pays ED servicers on a per borrower basis (regardless of the number of loans) based on borrower status – reduction in compensation as borrower becomes more delinquent

CLIN	Status	Unit	Unit Measure	Unit Rate
0001	In School	1+	EA	$ 1.05
0002	In Grace	1+	EA	$ 1.68
0003	In Repayment	1+	EA	$ 2.85
0004	Service Member	1+	EA	$ 2.85
0005	Deferment	1+	EA	$ 1.68
0006	Forbearance	1+	EA	$ 1.05
0007	Delinquent 6-30 Days	1+	EA	$ 2.11
0008	Delinquent 31-90 Days	1+	EA	$ 1.46
0009	Delinquent 91-150 Days	1+	EA	$ 1.35
0010	Delinquent 151-270 Days	1+	EA	$ 1.23
0011	Delinquent 271-360 Days	1+	EA	$ 0.45
0012	Delinquent 361 or more Days	1+	EA	$0.45

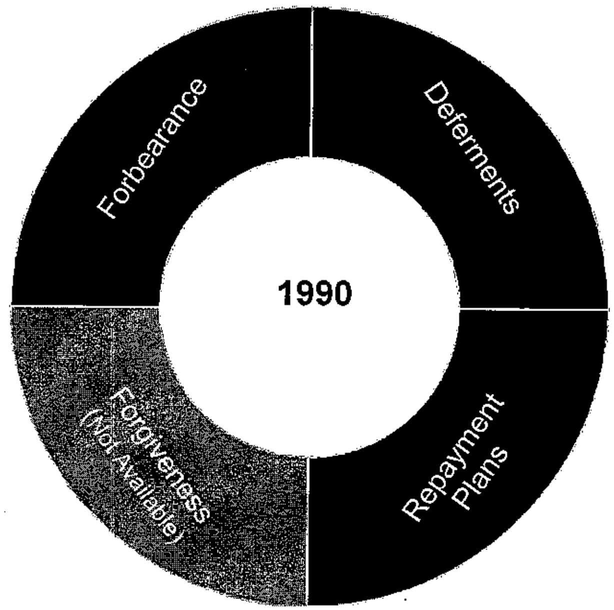
- The <u>most</u> a servicer can possibly receive for a single borrower (who may have multiple loans of different types) is $34.20 per year
- Contrast that with mortgage servicing - MBA estimates that cost of servicing a performing loan in 2014 was $158, and cost of servicing a non-performing loan was $1,949.

In 1990, There Were Two Repayment Plans And The Most Complex Area Was Deferment

Forbearance

Discretionary Forbearance

- Hardship Forbearance



Repayment Plans

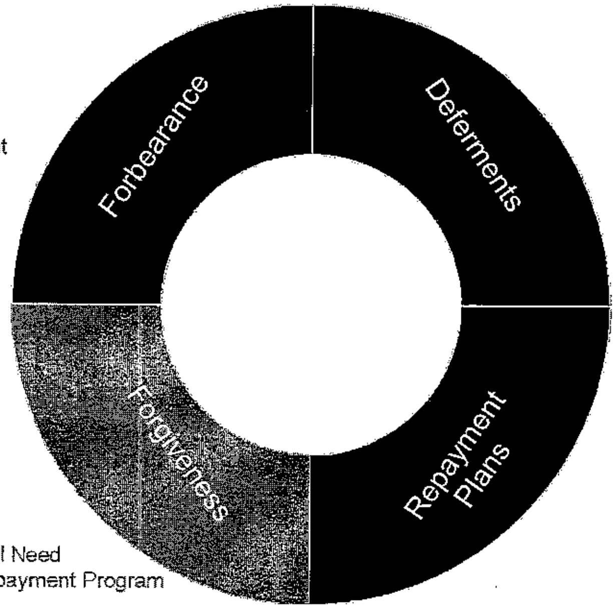
- Standard
- Graduated

Deferment

- School Full-Time
- School Half-Time
- Graduate Fellowship
- Unemployment Deferment – 2 years
- Rehabilitation Training Program
- Teacher Shortage
- Internship/Residency Training
- Temporary Total Disability
- Armed Forces or Public Health Services
- National Oceanic and Atmospheric Administration Corps
- Peace Corps, ACTION Program, and Tax-Exempt Organization Volunteer
- Parental Leave
- Mother Entering/Re-entering Work Force

In 1990, the most complex aspect of student loan repayment centered around the eligibility criteria for deferment, there were just two repayment plans, one type of forbearance, and loan forgiveness programs did not exist.

There Are Now 16 Repayment Plans and Multiple Types of Forbearance & Forgiveness Options



Forbearance

Discretionary Forbearance

- Hardship Forbearance

Mandatory Forbearance

- Medical or Dental Internship Residency
- Department of Defense Student Loan Repayment Programs
- National Service
- Active Military State Duty
- Student Loan Debt Burden
- Teacher Loan Forgiveness

Mandatory Administrative Forbearance

- Local or National Emergency
- Military Mobilization
- Designated Disaster Area
- Repayment Accommodation
- Death
- Teacher Loan Forgiveness

Forgiveness

- Teacher Loan Forgiveness
- Loan Forgiveness for Service in Areas of National Need
- Civil Legal Assistance Attorney Student Loan Repayment Program
- Income Contingent Repayment Plan Forgiveness
- Income Based Repayment Plan Forgiveness
- Pay As You Earn Repayment Plan Forgiveness
- Income Based 2014 Repayment Plan Forgiveness
- REPAYE Repayment Plan Forgiveness
- Public Service Loan Forgiveness

Effective Date Details

(1) Limited to FFELP borrowers with all new loans made on or after July 1, 1993; All DL are eligible
(2) Limited to FFELP borrowers with all loans made on or after July 1, 1987 and prior to July 1, 1993; DL eligible if borrower has FFELP loan made during this period.
(3) All FFELP and DL loans eligible regardless of disbursement date
(4) HERA aligned FFELP and DL repayment plans for loans first entering repayment on or after July 1, 2006
(5) Pre July 1, 1996 ICR plans, the DL borrower can choose between ICR1 – the Formula Amount, or ICR2 – the Capped Amount.
(6) The DL borrower can request from 5 alternative repayment plans: Fixed Payment Amount, Fixed Term, Graduated Repayment, Negative Amortization, or Post REPAYE.

Deferment

- School (1)
- School Full-Time (2)
- School Half-Time (2)
- Post Enrollment (1)
- Graduate Fellowship (3)
- Unemployment Deferment – 2 years (2)
- Unemployment Deferment – 3 years (1)
- Economic Hardship (1)
- Rehabilitation Training Program (3)
- Military Service (3)
- Post-Active Duty Student (3)
- Teacher Shortage(2)
- Internship/Residency Training (2)
- Temporary Total Disability (2)
- Armed Forces or Public Health Services (2)
- National Oceanic and Atmospheric Administration Corps (2)
- Peace Corps, ACTION Program, and Tax-Exempt Organization Volunteer (2)
- Parental Leave (2)
- Mother Entering/Re-entering Work Force (2)

Repayment Plans

- DL Standard Pre-HERA
- FFELP/DL Standard Post-HERA (4)
- DL Graduated Pre-HERA
- FFELP/DL Graduated Post –HERA (4)
- DL Extended Pre-HERA
- FFELP/DL Extended Post-HERA (4)
- Income-Sensitive
- Income-Contingent Ver. 1 (5)
- Income-Contingent Ver. 2 (5)
- Income-Contingent Ver. 3
- Forced Income-Driven
- Income-Based
- Pay As You Earn
- Income-Based 2014
- Alternative (6)
- REPAYE

Federal Student Loans

- 9 entities service approximately $1 Trillion in federal student loans (Direct Loans plus ED-held FFELP loans) for over 42 million borrowers
- Current contract structure underscores necessity of automation and efficiencies
- Two small servicers have dropped out of the contract in the past year
- Contrast with the mortgage servicing industry
  - Student loan servicing fees are only a fraction of mortgage servicing fees (typical mortgage fee would be $75 for a $30,000 mortgage)
  - Federal programs like HAMP and HARP pay the mortgage servicers for additional work involved in loan modifications
  - Mortgage counselors paid $150 for their work supporting struggling homeowners (1-888-995-HOPE)
- Real estate is located in a single state and doesn't move, so licensing of mortgage servicers is more straightforward
- Student loan borrowers are very mobile, and as they move from one state to another, they will be subject to changing requirements

New Federal Servicing Eco-System

- July 20, 2016 memorandum on Policy Direction on Federal Loan Servicing: "Education has begun the process to design a single servicing platform that makes clear to all borrowers that the U.S. Department of Education is responsible for servicing their loans."
- ED in the midst of a Request for Proposals (RFP) for a new servicing "eco-system"
- Contracting process slowed by bid protest and uncertainty due to change in administration
- Single servicer platform, with the possibility of multiple users performing different tasks
- From consumer perspective, will all be labelled as U.S. Department of Education – no ability to see any individual companies behind the ED interface
- Concern with potential State requirements that may conflict with ED requirements, especially the requirements that affect how the servicing system is programmed – could cause potential shut-down of all federal loan servicing activities in a state

Private Education Loans

- Just over $100 Billion in outstanding private loans
- Private loans often referred to as supplemental loans -- they provide additional funds when the student's cost to attend a college or university exceeds the amount that can be borrowed under the federal student loan programs
- No government subsidy or protection for lenders
- Borrower must be credit-worthy or have a credit-worthy co-signer
- Subject to all of the federal laws that other consumer loans are subject to (TILA, ECOA, FCRA, EFTA, MLA, etc.)

Private Education Loans

- Six large lenders make up approximately 2/3 of all private loan activity
  - Citizens Bank, N.A.
  - Discover Bank
  - Navient
  - PNC Bank, N.A.
  - Sallie Mae Bank
  - Wells Fargo Bank, N.A.
- Other lenders/holders include banks, credit unions, non-bank financial companies, State and not-for-profit secondary markets
- Some lenders service their own loans and some use a third-party student loan servicer

Private Education Loans

- MeasureOne data shows that private loans have returned to pre-recession levels of stability
  - Early stage delinquency rate (30-89 days delinquent) = 2.7% of total loans in repayment
  - Late stage delinquency rate (90+ days delinquent) = 1.9% of total loans in repayment
  - Annualized charge-offs = 1.9% of total loans in repayment

CFPB Complaint Data

- CFPB complaint data shows low rates of complaints for student loans compared to other financial products
- Between October 2015 and 2016, the CFPB handled approximately 283,700 consumer complaints
- CFPB's most recent semi-annual report (issued Dec. 2016)
  - 18% of complaints were in connection with mortgages
  - 9% of complaints were in connection with bank accounts/services
  - 9% of complaints were in connection with credit cards
  - 5% of complaints were in connection with consumer loans
  - 4% of complaints were in connection with student loans
- Student loans constitute 10% of total dollars outstanding in consumer credit, but only 4% of the complaints filed with the CFPB during the last FY

CFPB Complaint Data

- Vast majority (85%) of all student loan complaints filed with the CFPB are resolved with only an explanation – yes, student loans are complicated
- One large servicer has analyzed all of the complaints against it filed with the CFPB during the last FY – the vast majority do not involve servicing error
  - The majority of issues raised in connection with federal loans involved a consumer disagreeing with federal law or policy, including federal requirements on credit reporting, repayment options, and loan forgiveness
  - The most common issue for private loans involved requests for lower payments, including requests for repayment options that are unique to federal loans (i.e., income-based repayment)

Questions?

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MeasureOne™

The MeasureOne Private Student Loan Report

December 2016

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INTRODUCTION

Executive Summary

The semiannual MeasureOne Private Student Loan Report provides data and analytics on private student lending, including repayment and delinquency trends, as well as loan performance activity among borrowers and lenders. Research in this report reflects data as of Q3 2016 for private student loans and does not include federal student loan data. This installment of the report focuses exclusively on school-certified loans and does not include consolidation loans, which are typically made to borrowers who no longer attend school and who seek to combine education loans into a single education debt obligation.

Key Research Findings as of Q3 2016

- The early-stage delinquency rate (30 to 89 days past due) declined by 8.8 percent year over year and stands at 2.7 percent of total loans in repayment. Compared to five years ago, the early-stage delinquency rate has declined by 43.6 percent.
- Both undergraduate and graduate early-stage delinquencies are at the lowest levels since peaking. For undergraduate loans, Q3 2016 had the lowest rate at 2.8 percent since the peak of 8.7 percent in Q4 2008, a decline of 67.1 percent; for graduate loans, the 1.9 percent rate is lower than the Q4 2009 peak of 4.0 percent, a decline of 52.9 percent.
- The late-stage delinquency rate (90 days or more past due) declined by 14.9 percent year over year and stands at 1.9 percent of total loans in repayment. Compared to five years ago, the late-stage delinquency rate has declined by 51.4 percent.
- As with early-stage delinquencies, both undergraduate and graduate late-stage delinquencies are at the lowest levels since peaking. Third-quarter 2016 had the lowest late-stage delinquencies rate at 2.1 percent for undergraduate loans, 71.4 percent lower than the Q2 2009 peak of 7.3 percent. Similarly at 1.2 percent for graduate loans, late-stage delinquencies are 56.0 percent lower than the Q1 2010 peak of 2.7 percent.
- Annualized charge-offs declined by 20.8 percent year over year and stand at 1.9 percent of loans in repayment, the lowest Q3 charge-off rate since before the financial crisis. By comparison, the charge-off rate five years ago was 4.8 percent, representing a decline of 61.0 percent from Q3 2011 to Q3 2016.
- Year over year, the percent of loans in forbearance status declined 1.5 percent with a current rate of 2.2 percent; loans in deferment declined 3.2 percent with a current rate of 18.2 percent; and loans in repayment increased 0.4 percent with a current rate of 74.5 percent; the percent of loans in grace status increased 7.1 percent and stands at 5.0 percent.
- The overall private student loan balance increased by 0.8 percent with undergraduate loans continuing to make up a greater percentage of the overall balance at 86.2 percent compared to graduate loans at 13.8 percent. Of the total, the undergraduate loan balance increased 0.6 percent year over year, and the graduate loan balance decreased 3.8 percent.
- Private student loan originations in academic year 2016-2017 increased 5.47 percent compared with academic year 2015-2016. Of this total, undergraduate loans account for 88.7 percent and graduate loans account for 11.3 percent.
- Just over 93.2 percent of undergraduate private student loans included a cosigner in academic year 2016-2017, a rate that has steadily increased since academic year 2008-2009 when it stood at 75.8 percent. Conversely, the proportion of cosigned graduate loans has decreased for three consecutive academic years from AY2012/2013 to AY2014/15 and stands at just over 59.3 percent.

Background

The data for this report is sourced from the MeasureOne Private Student Loan Consortium, a data cooperative of lenders and holders of private student loans. Members include the six largest student loan lenders and holders – Citizens Bank, N.A., Discover Bank, Navient, PNC Bank, N.A., Sallie Mae Bank and Wells Fargo Bank, N.A. In aggregate, the members of the consortium represent 64.7 percent of all private student loans outstanding in the U.S. Overall, private student loans make up roughly 7.5 percent – approximately $102.3 billion – of total student loans outstanding. The remaining 92.5 percent of the $1.36 trillion in total student loans are federal loans.

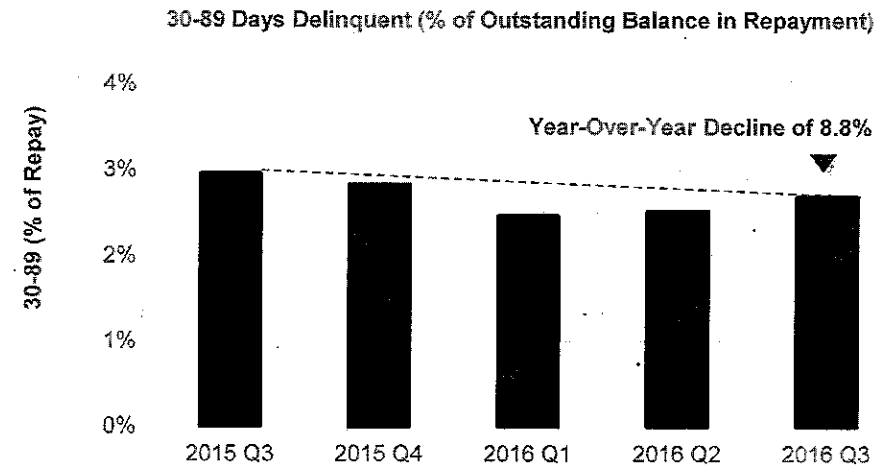
KEY PERFORMANCE AND PORTFOLIO METRICS (YEAR OVER YEAR)

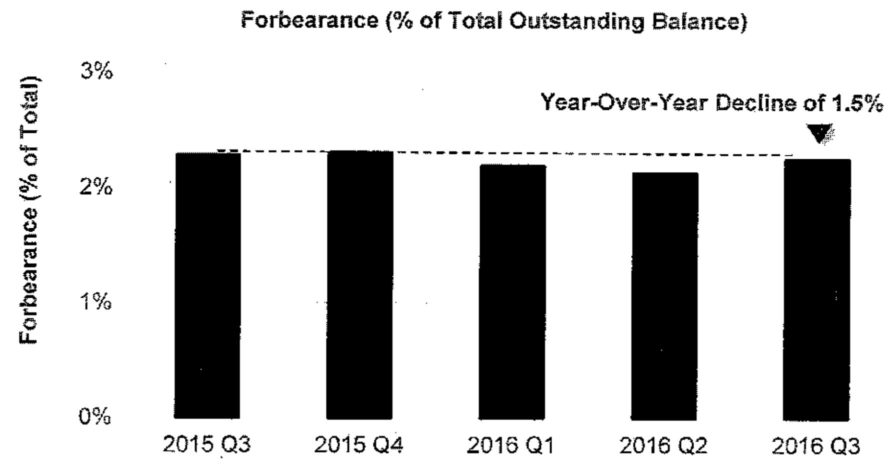
As of Q3 2016, early-stage and late-stage delinquencies declined by 8.8% and 14.9% year over year, respectively, and forbearance rates declined by 1.5%. Annualized charge-offs declined by 20.81%.

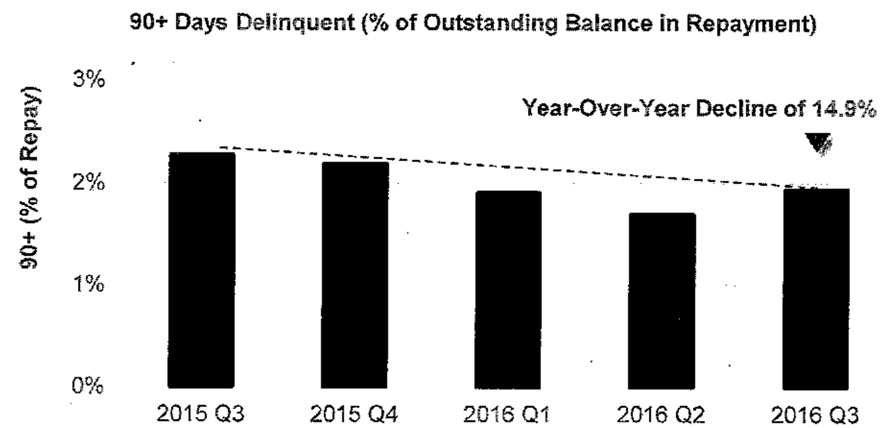
		Current Year	Previous Year	Year-Over-Year % Change
	Reporting Quarter	**2016Q3**	**2015Q3**	**2016Q3**
Performance Metrics	30-89 (% of Repay)	2.69%	2.95%	-8.84%
	90+ (% of Repay)	1.93%	2.27%	-14.90%
	Annualized Gross Charge-offs (% of Repay)	1.89%	2.39%	-20.81%
	Forbearance (% of Total)	2.24%	2.28%	-1.47%
Portfolio Metrics	Grace (% of Total)	5.03%	4.70%	7.10%
	Deferment (% of Total)	18.23%	18.83%	-3.20%
	Repayment (% of Total)	74.49%	74.19%	0.41%
	Undergraduate (% of Total)	86.22%	85.68%	0.63%
	Graduate (% of Total)	13.78%	14.32%	-3.77%
	Current Balance	$62.69B	$62.19B	0.80%

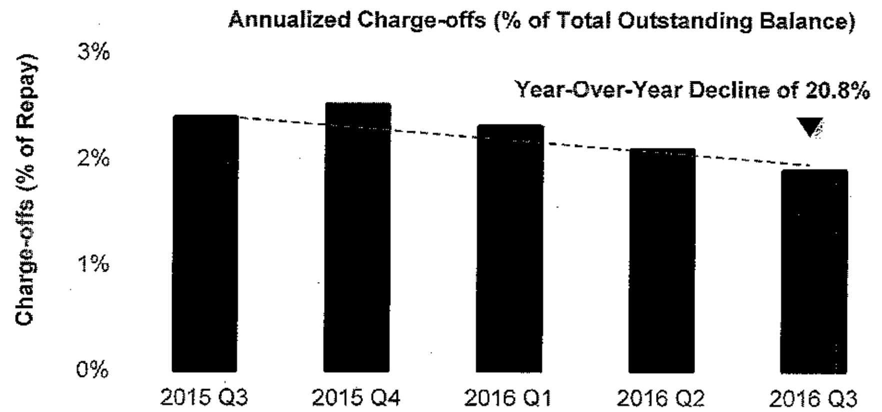
KEY PERFORMANCE METRICS (RECENT QUARTERS)

- Year over year, the 30-89 day delinquency rate declined by 8.8% and the 90+ day delinquency rate declined by 14.9%.
- Delinquency reductions are not being driven by forbearance utilization which has declined by 1.5% year over year.
- Reduced delinquency levels are having a positive impact on ultimate charge-off levels as evidenced by the continued decline in this category with charge-offs declining more than 20%.
- Despite the overall downward trend in these performance metrics, a slight increase quarter to quarter during the year in some metrics reflects the seasonality of student loan market.



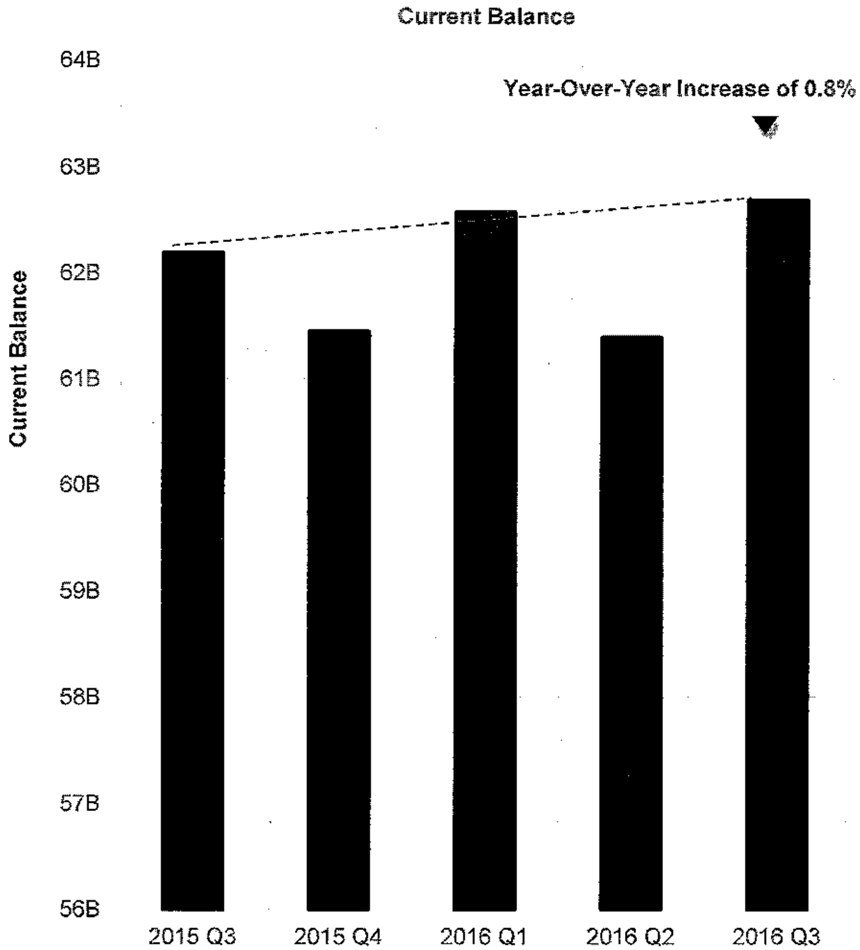


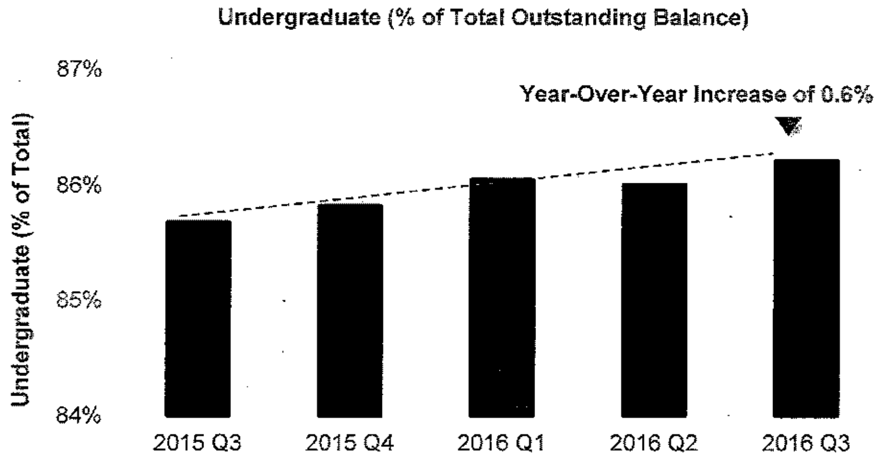


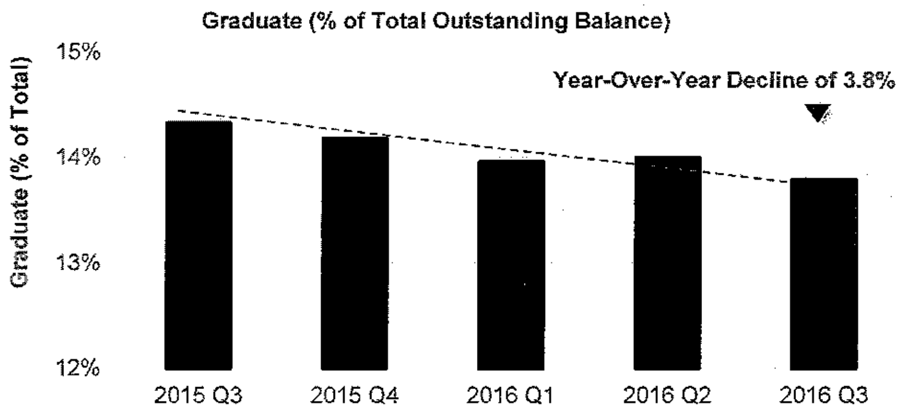


PORTFOLIO BY PROGRAM TYPE (RECENT QUARTERS)

- Total private student loan volume increased by 0.8% with undergraduate loans making up a greater percentage of the overall balance at 86.2%.
- Of the total, undergraduate loans increased 0.6% year over year and graduate loans decreased 3.8%.

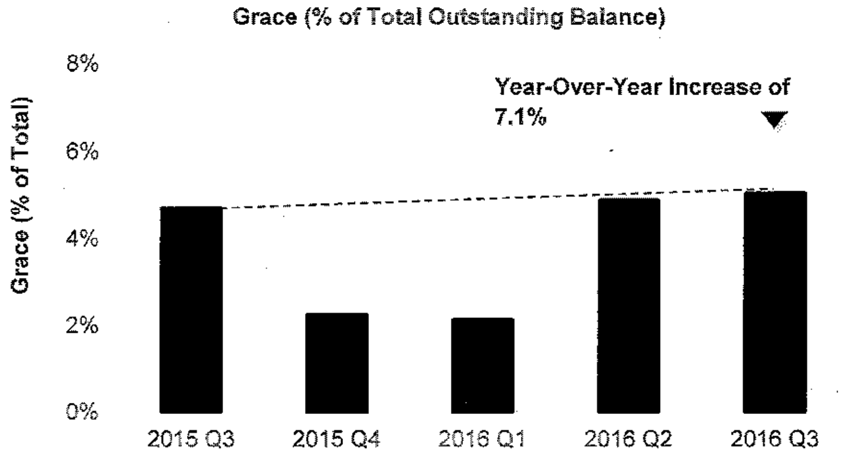


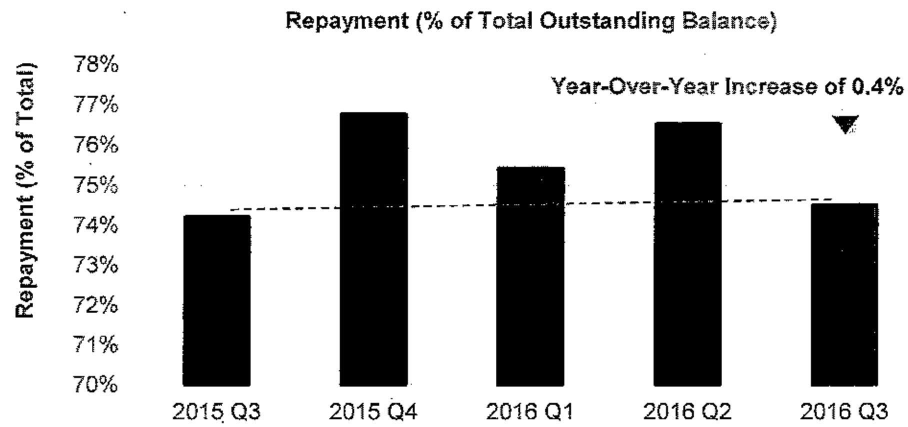


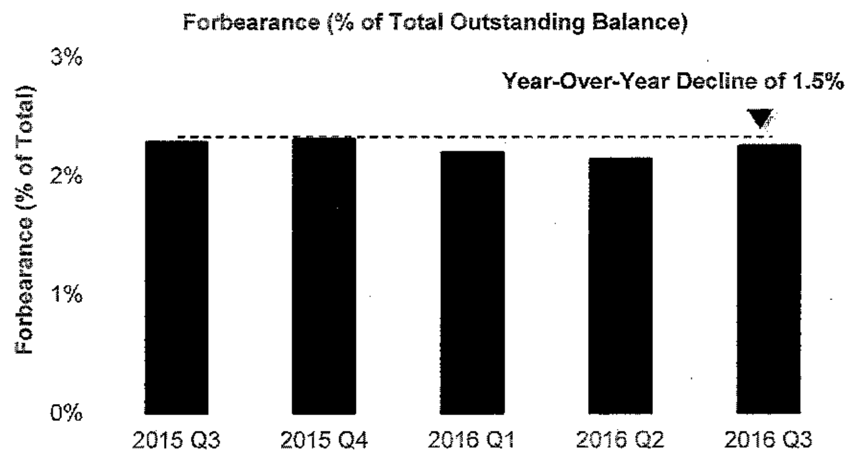


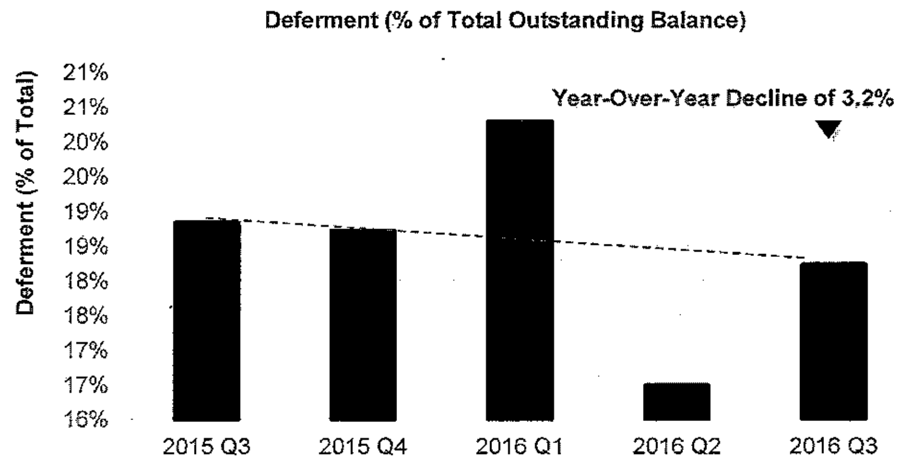
PORTFOLIO BY LOAN STATUS (RECENT QUARTERS)

- The percent of loans in forbearance declined 1.5%, and those in grace status increased year over year by 7.1%.
- The percent of loans in deferment declined 3.2%, and those in repayment increased 0.4%.





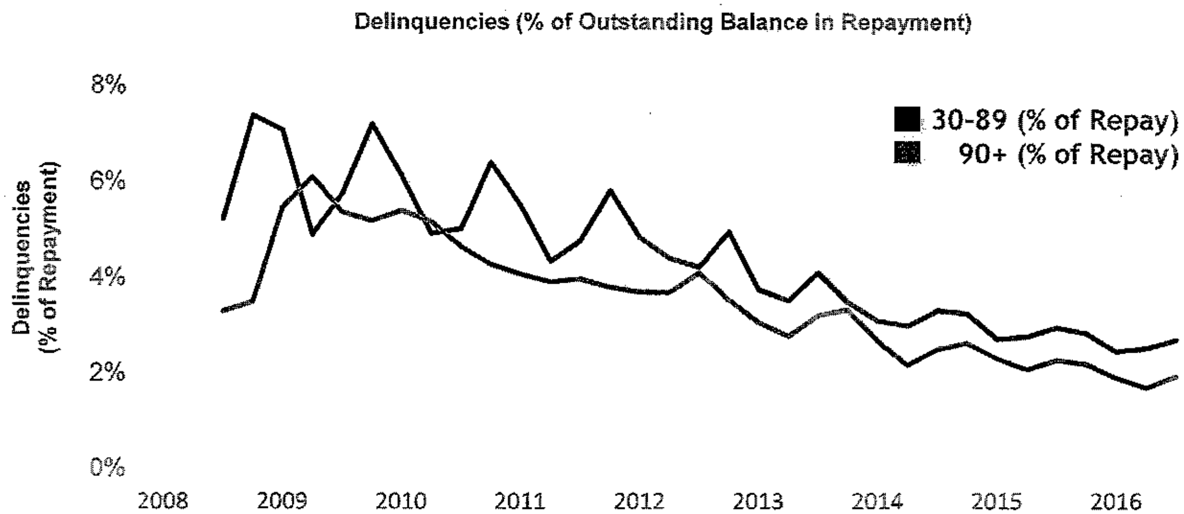


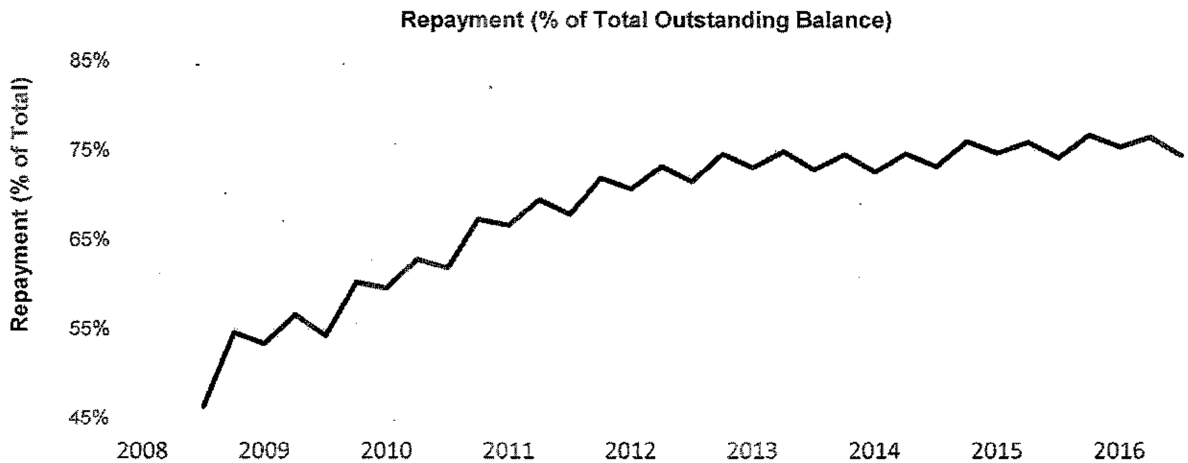


HISTORICAL DELINQUENCY TRENDS AS A PERCENTAGE OF REPAYMENT

- Comparing 30-89 day delinquencies as of Q3 this year to Q3 last year, there was an 8.8% year-over-year decline, decreasing from 2.95% in Q3 2015 to 2.69% in Q3 2016.
- Comparing 90+ day delinquencies as of Q3 this year to Q3 last year, there was a 14.9% year-over-year decline, decreasing from 2.27% in Q3 2015 to 1.93% in Q3 2016.

Quarter	30-89 (% of Repay)	90+ (% of Repay)	Repayment (% of Total)
2009Q3	5.76%	5.38%	54.19%
2009Q4	7.20%	5.19%	60.18%
2010Q1	6.12%	5.41%	59.57%
2010Q2	4.92%	5.16%	62.81%
2010Q3	5.03%	4.65%	61.82%
2010Q4	6.41%	4.28%	67.29%
2011Q1	5.51%	4.08%	66.62%
2011Q2	4.34%	3.91%	69.47%
2011Q3	4.77%	3.97%	67.82%
2011Q4	5.82%	3.80%	71.87%
2012Q1	4.84%	3.69%	70.67%
2012Q2	4.41%	3.69%	73.18%
2012Q3	4.22%	4.10%	71.50%
2012Q4	4.96%	3.53%	74.57%
2013Q1	3.75%	3.07%	73.04%
2013Q2	3.51%	2.77%	74.87%
2013Q3	4.11%	3.21%	72.80%
2013Q4	3.48%	3.33%	74.52%
2014Q1	3.10%	2.67%	72.59%
2014Q2	2.99%	2.17%	74.60%
2014Q3	3.31%	2.49%	73.19%
2014Q4	3.25%	2.63%	75.99%
2015Q1	2.71%	2.30%	74.69%
2015Q2	2.77%	2.08%	75.94%
2015Q3	2.95%	2.27%	74.19%
2015Q4	2.83%	2.18%	76.75%
2016Q1	2.46%	1.90%	75.41%
2016Q2	2.52%	1.69%	76.52%
2016Q3	2.69%	1.93%	74.49%





DELINQUENCY COMPARISONS ACROSS UNDERGRADUATE AND GRADUATE LOANS

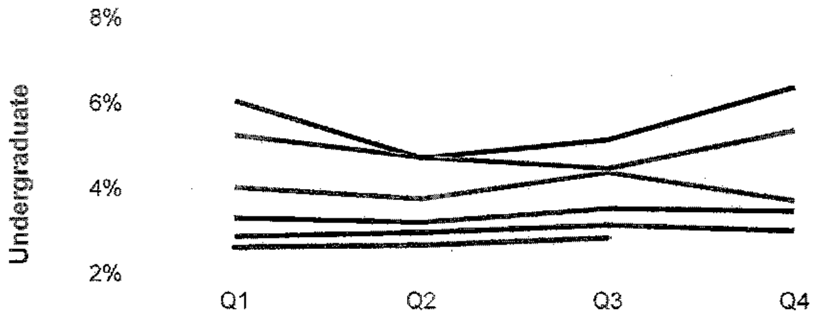
30-89 Day Delinquencies (Early Stage)

- On a year-over-year basis, the early-stage delinquency rate for undergraduate loans continued to decrease falling 9.5% from Q3 2015 when it stood at 3.1% to the Q3 2016 rate of 2.8%; the early-stage delinquency rate for graduate loans declined 6.4% from Q3 2015 when it stood at 2.0% to the Q3 2016 rate of 1.9%.

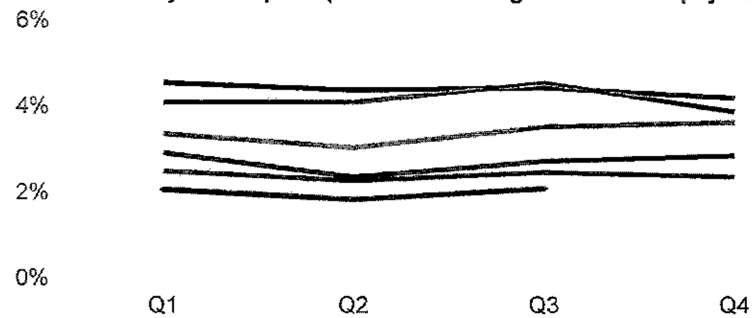
90+ Day Delinquencies (Late Stage)

- Late-stage delinquencies also depict a continued downward year-over-year trend with undergraduate loan delinquencies declining 15.3% from Q3 2015 when it stood at 2.5% to the Q3 2016 rate of 2.1%; the late-stage delinquency rate for graduate loans declined 13.4% from Q3 2015 when it stood 1.4% to the Q3 2016 rate of 1.2%.
- The slowing rate of loans entering repay indicates a convergence to 'steady state' in which inflows are similar to outflows in repayment volume. This phenomenon suggests that delinquency rates should decrease – driven by fewer early repayment delinquencies. The patterns of delinquency rates decreasing at a slower rate year-over-year support this assertion.

30-89 Days Delinquent (% of Outstanding Balance in Repayment)

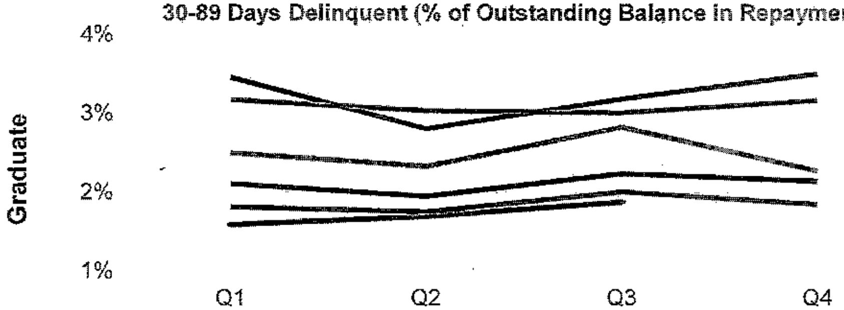


90+ Days Delinquent (% of Outstanding Balance in Repayment)

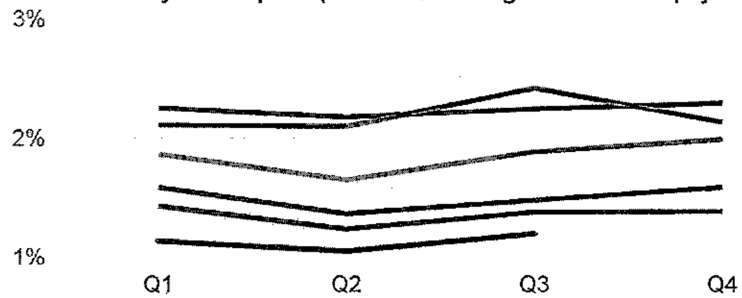


2011 2012 2013 2014 2015 2016

30-89 Days Delinquent (% of Outstanding Balance in Repayment)



90+ Days Delinquent (% of Outstanding Balance in Repayment)



30-89 Days Delinquent (Year Over Year % Change)

	Q3 2010	Q3 2011	Q3 2012	Q3 2013	Q3 2014	Q3 2015	Q3 2016
Undergraduate	-15.7%	-6.0%	-12.9%	-2.2%	-19.3%	-11.1%	-9.5%
Graduate	-1.5%	-0.6%	-5.6%	-5.9%	-21.0%	-10.5%	-6.4%

90+ Days Delinquent (Year Over Year % Change)

	Q3 2010	Q3 2011	Q3 2012	Q3 2013	Q3 2014	Q3 2015	Q3 2016
Undergraduate	-17.4%	-15.6%	2.4%	-22.5%	-22.7%	-9.5%	-15.3%
Graduate	10.9%	-13.2%	7.7%	-22.0%	-21.4%	-6.8%	-13.4%

DELINQUENCY COMPARISONS ACROSS UNDERGRADUATE AND GRADUATE LOANS

- Early-stage delinquencies are down 9.5% for undergraduate and 6.4% for graduate loans. Late-stage delinquencies are down 15.3% for undergraduate and 13.4% for graduate loans.
- Graduate loan delinquency rates are consistently lower than undergraduate rates and the spread between undergraduate and graduate loan delinquency rates has gradually narrowed since 2008 due to improved undergraduate loan performance.

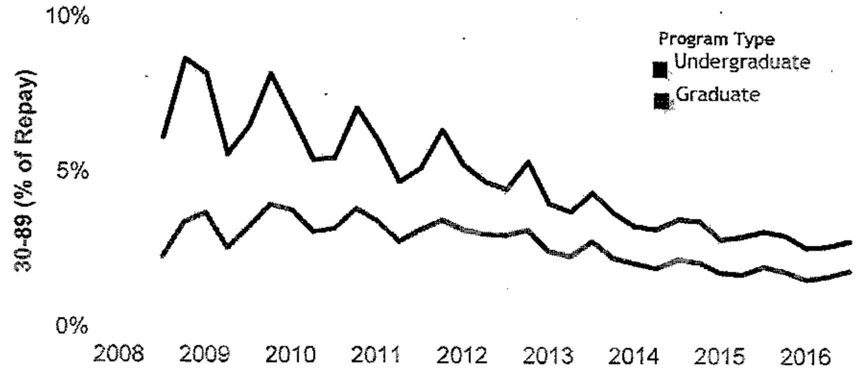
30-89 Day Delinquencies (Early Stage)

- For undergraduate loans, Q3 2016 had the lowest early-stage delinquency rate at 2.8% since the peak of 8.7% in Q4 2008, a decline of 67.1%; for graduate loans, the 1.9% rate is lower than the Q4 2009 peak of 4.0%, a decline of 52.9%.

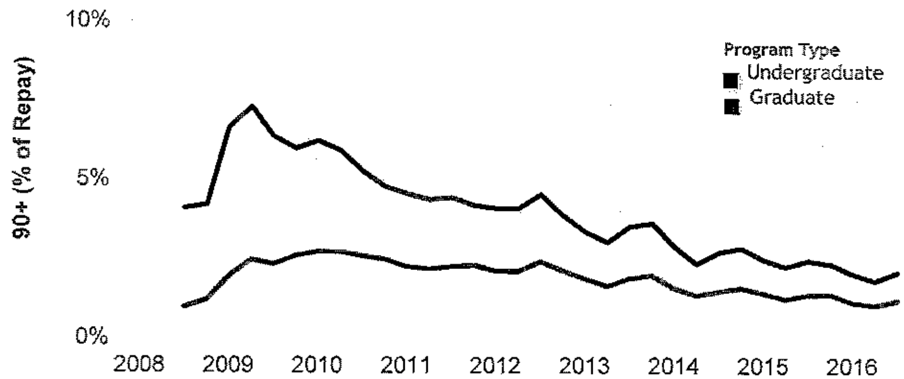
90+ Day Delinquencies (Late Stage)

- Late-stage delinquencies peaked in 2009 for undergraduate loans and in 2010 for graduate loans, and Q3 2016 had the lowest late-stage delinquencies since the peak. At 2.1% for undergraduate loans, late-stage delinquencies are 71.4% lower than the Q2 2009 peak of 7.3%. At 1.2% for graduate loans, late-stage delinquencies are 56.0% lower than the Q1 2010 peak of 2.7%.

30-89 Days Delinquent (% of Outstanding Balance in Repayment)



90+ Days Delinquent (% of Outstanding Balance in Repayment)



30-89 Days Delinquent (as a % of Balance in Repayment)

	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Undergraduate	6.8%	5.4%	5.5%	7.1%	6.1%	4.7%	5.1%	6.4%	5.2%	4.7%	4.5%	5.4%	4.0%	3.8%	4.4%	3.7%	3.3%	3.2%	3.5%	3.5%	2.9%	3.0%	3.1%	3.0%	2.6%	2.7%	2.8%
Graduate	3.8%	3.1%	3.2%	3.9%	3.5%	2.8%	3.2%	3.5%	3.2%	3.0%	3.0%	3.2%	2.5%	2.3%	2.8%	2.3%	2.1%	1.9%	2.2%	2.1%	1.8%	1.7%	2.0%	1.8%	1.6%	1.7%	1.9%

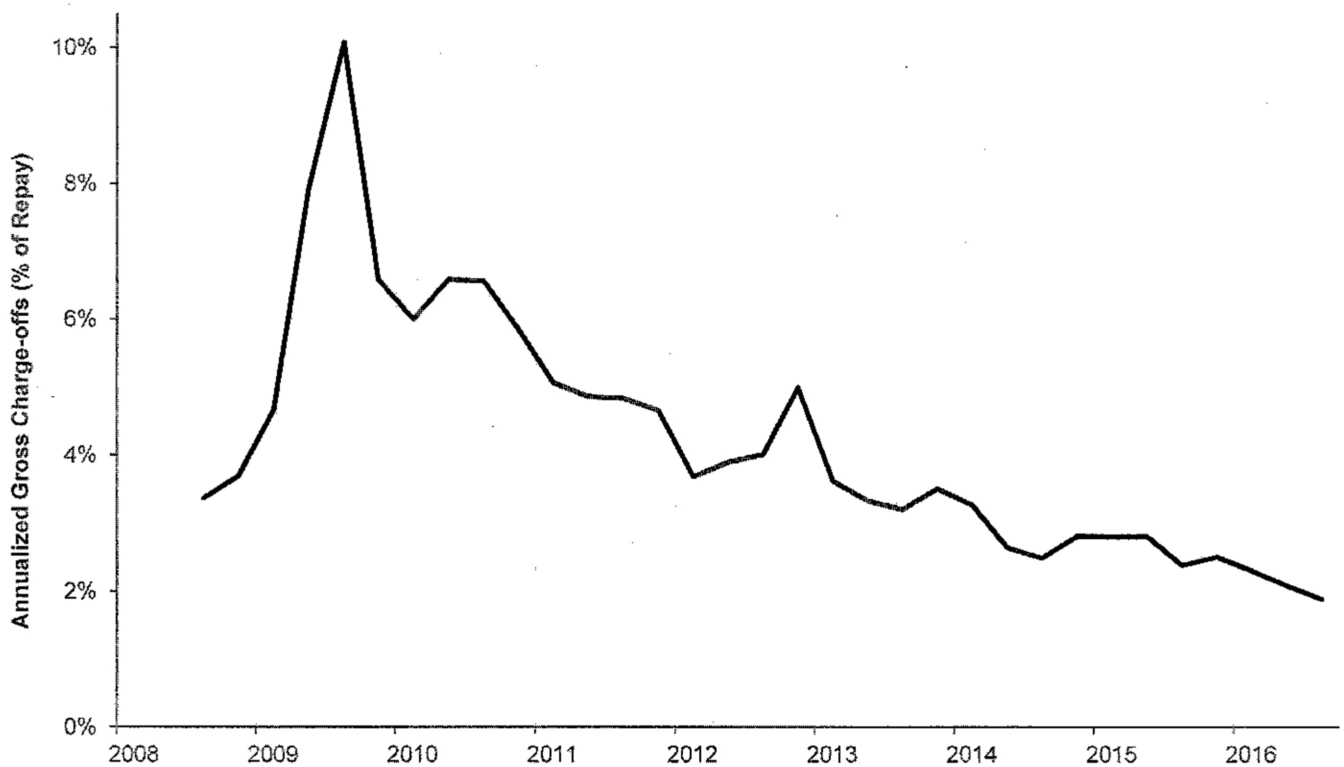
90+ Days Delinquent (as a % of Balance in Repayment)

	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Undergraduate	6.2%	5.9%	5.3%	4.8%	4.5%	4.4%	4.4%	4.2%	4.1%	4.1%	4.5%	3.9%	3.4%	3.0%	3.5%	3.6%	2.9%	2.3%	2.7%	2.9%	2.5%	2.3%	2.5%	2.4%	2.1%	1.8%	2.1%
Graduate	2.7%	2.7%	2.6%	2.5%	2.3%	2.2%	2.2%	2.3%	2.1%	2.1%	2.4%	2.1%	1.9%	1.7%	1.9%	2.0%	1.6%	1.4%	1.5%	1.6%	1.4%	1.2%	1.4%	1.4%	1.1%	1.1%	1.2%

GROSS CHARGE-OFF RATES BY QUARTER

- Gross charge-off rates are at their lowest level since before the credit crisis and have trended down since the peak in Q3 2009.
- The Q3 2016 rate of 1.9% is a 20.8% year-over-year decline from Q3 2015 and a five-year decline of 61.0% from Q3 2011.

Note that gross charge-offs are defined as the total dollar amount of the loans at the time of charge-off during the quarter divided by the quarter-end balance in repayment. To obtain annualized gross charge-offs as a percent of repayment, we multiply the quarterly charge-off rate by 4.

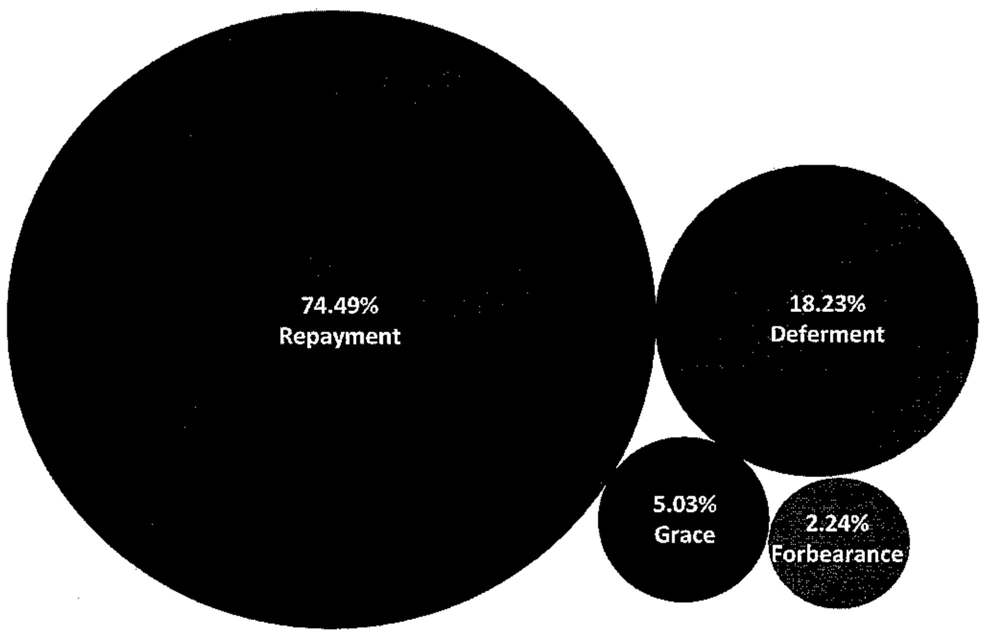


Quarter	Annualized Gross Charge-offs (% of Repay)
2009 Q3	10.08%
2009 Q4	6.58%
2010 Q1	6.00%
2010 Q2	6.59%
2010 Q3	6.57%
2010 Q4	5.86%
2011 Q1	5.07%
2011 Q2	4.86%
2011 Q3	4.84%
2011 Q4	4.66%
2012 Q1	3.68%
2012 Q2	3.90%
2012 Q3	4.01%
2012 Q4	5.00%
2013 Q1	3.62%
2013 Q2	3.33%
2013 Q3	3.20%
2013 Q4	3.51%
2014 Q1	3.27%
2014 Q2	2.64%
2014 Q3	2.49%
2014 Q4	2.82%
2015 Q1	2.80%
2015 Q2	2.81%
2015 Q3	2.39%
2015 Q4	2.51%
2016 Q1	2.30%
2016 Q2	2.09%
2016 Q3	1.89%

DISTRIBUTION BY LOAN STATUS (BY QUARTER)

As of Q3 2016, nearly 74.5% of outstanding private student loan balances for the six participating lenders were in repayment status. At 2.2% of overall balances, forbearance has decreased by nearly 1.5% year over year and remains well within the 2-3% range seen over the past four years.

Distribution by Loan Status (% of Total Outstanding Balance)
As of Quarter End Q32016



Current Balance (% of Total Outstanding Balance)

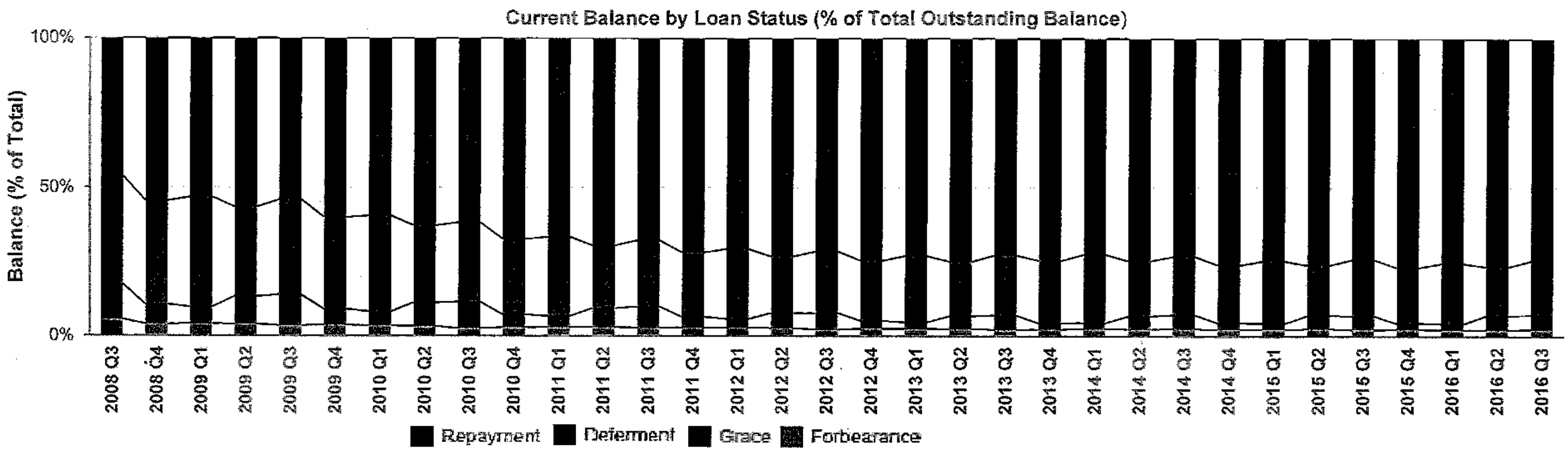
Quarter	Repayment	Deferment	Grace	Forbearance
2009Q3	54.19%	31.91%	10.36%	3.54%
2009Q4	60.18%	30.78%	5.37%	3.67%
2010Q1	59.57%	32.21%	4.68%	3.54%
2010Q2	62.81%	25.97%	7.89%	3.33%
2010Q3	61.82%	26.70%	8.93%	2.55%
2010Q4	67.29%	25.49%	4.36%	2.86%
2011Q1	66.62%	26.63%	3.79%	2.96%
2011Q2	69.47%	21.15%	6.41%	2.96%
2011Q3	67.82%	22.19%	7.22%	2.77%
2011Q4	71.87%	21.68%	3.55%	2.89%
2012Q1	70.67%	23.45%	2.99%	2.90%
2012Q2	73.18%	18.95%	5.16%	2.70%
2012Q3	71.50%	20.66%	5.72%	2.12%
2012Q4	74.57%	20.19%	2.73%	2.51%
2013Q1	73.04%	22.15%	2.40%	2.40%
2013Q2	74.87%	18.36%	4.42%	2.35%
2013Q3	72.80%	20.16%	4.85%	2.19%
2013Q4	74.52%	20.99%	2.22%	2.27%
2014Q1	72.59%	22.81%	2.13%	2.47%
2014Q2	74.60%	18.65%	4.40%	2.35%
2014Q3	73.19%	19.61%	4.75%	2.45%
2014Q4	75.99%	19.46%	2.32%	2.24%
2015Q1	74.69%	20.92%	2.13%	2.27%
2015Q2	75.94%	17.08%	4.50%	2.49%
2015Q3	74.19%	18.83%	4.70%	2.28%
2015Q4	76.75%	18.71%	2.23%	2.30%
2016Q1	75.41%	20.28%	2.12%	2.19%
2016Q2	76.52%	16.48%	4.87%	2.13%
2016Q3	74.49%	18.23%	5.03%	2.24%

As of Q3 2016 the balance of loans:

- In repayment was $46.7B, representing 74.5% of overall balances and a year-over-year increase of 0.4%.
- In deferment was $11.4B, representing 18.2% of overall balances and a year-over-year decline of 3.2%.
- In a grace period was $3.2B, representing 5.0% of overall balances and a year-over-year increase of 7.1%.
- In forbearance was $1.4B, representing 2.2% of overall balances and a year-over-year decline of 1.5%.

BALANCE BY LOAN STATUS (BY QUARTER)

The percentage of private loans in different statuses has remained relatively stable since 2012 with repayment gradually reaching 75%, deferment hovering around 20%, grace fluctuating between 5% and 2%, and forbearance fluctuating, but consistently remaining, below 3%. These small changes reflect normal seasonal variation.



Loan Status	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Repayment	$33.1B	$36.3B	$36.6B	$38.0B	$37.8B	$40.3B	$40.3B	$41.4B	$41.4B	$43.1B	$43.0B	$43.6B	$43.4B	$44.2B	$44.0B	$44.8B	$44.7B	$46.2B	$46.2B	$46.2B	$46.1B	$47.2B	$47.2B	$47.0B	$46.7B
Deferment	$14.3B	$13.8B	$14.6B	$11.6B	$12.4B	$12.1B	$13.4B	$10.7B	$12.0B	$11.7B	$13.0B	$10.7B	$12.0B	$12.5B	$13.8B	$11.2B	$12.0B	$11.8B	$13.0B	$10.4B	$11.7B	$11.5B	$12.7B	$10.1B	$11.4B
Grace	$4.8B	$2.4B	$2.1B	$3.5B	$4.0B	$2.0B	$1.7B	$2.9B	$3.3B	$1.6B	$1.4B	$2.6B	$2.9B	$1.3B	$1.3B	$2.6B	$2.9B	$1.4B	$1.3B	$2.7B	$2.9B	$1.4B	$1.3B	$3.0B	$3.2B
Forbearance	$1.4B	$1.5B	$1.6B	$1.6B	$1.5B	$1.6B	$1.7B	$1.5B	$1.2B	$1.4B	$1.4B	$1.4B	$1.3B	$1.3B	$1.5B	$1.4B	$1.5B	$1.4B	$1.4B	$1.5B	$1.4B	$1.4B	$1.4B	$1.3B	$1.4B
Total	$53.5B	$54.0B	$55.0B	$54.6B	$55.8B	$56.0B	$57.1B	$56.6B	$57.9B	$57.7B	$58.9B	$58.3B	$59.6B	$59.4B	$60.6B	$60.1B	$61.1B	$60.8B	$61.9B	$60.9B	$62.2B	$61.4B	$62.6B	$61.4B	$62.7B

The repayment balance has been relatively steady since 2012, though year-over-year growth in repayment balance still outpaces the growth rate of total balances. (See page 14, Performance Improvement in the Last Five Years.) This translates into a modest annual increase in actual loan balances in repayment with a year-over-year increase of $0.6 billion, or 1.2%.

The deferment balance (a status that typically indicates a borrower is in school) has hovered between 16% and 27% since 2011. Outstanding balance in deferment has declined 2.4% in the last year, which is in line with past variation.

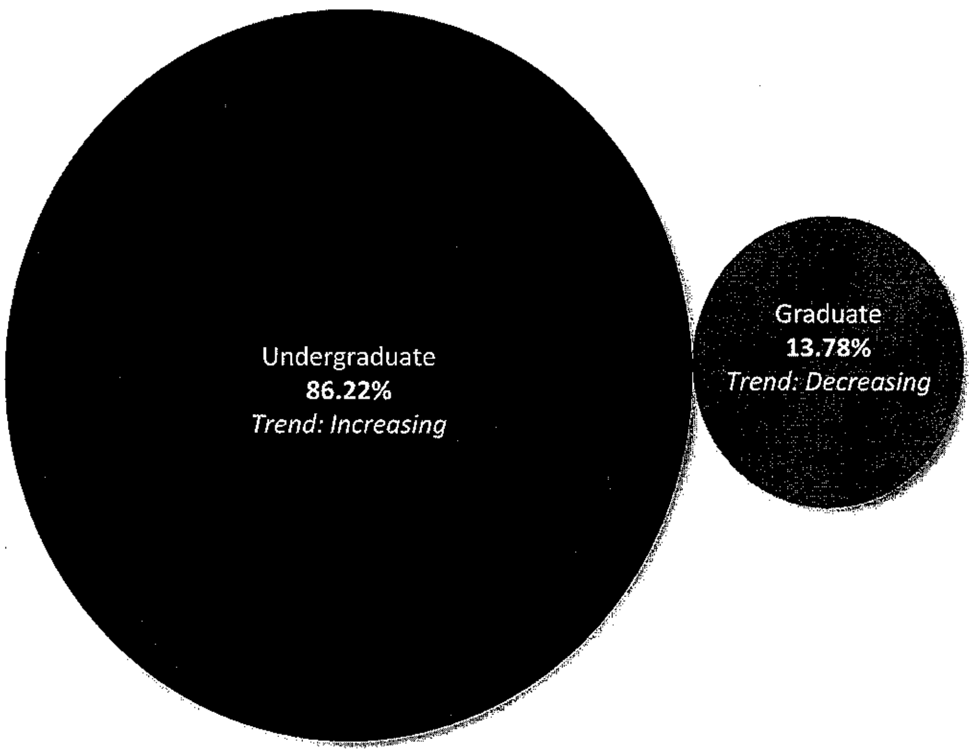
The grace balance regularly fluctuates from quarter to quarter, reflecting enrollment and program completion patterns. Grace levels tend to be higher in the 2nd and 3rd quarters and lower in the 1st and 4th quarters, and the last two quarters continue this pattern. This is driven by the use of in-school repayment plans, causing some loans to be in repayment that would otherwise be in deferment or grace status.

The forbearance balance held steady near current levels since 2012. The percent of loans in forbearance thus continues a pattern in which forbearance represents between 2% and 3% of overall balances and varies slightly around that average from year to year. For example, the year-over-year decrease from Q3 2015 to Q3 2016 was $9.6 million, representing a 0.7% year-over-year decrease.

DISTRIBUTION BY PROGRAM TYPE (BY QUARTER)

Undergraduate loan balances are a growing proportion of private loans and now make up roughly 86% of the private loan volume. The proportion of balances attributable to undergraduate loans has increased by roughly 4.7% since Q3 2009 – fueled by a combination of faster originations growth and different repayment patterns in this loan type segment.

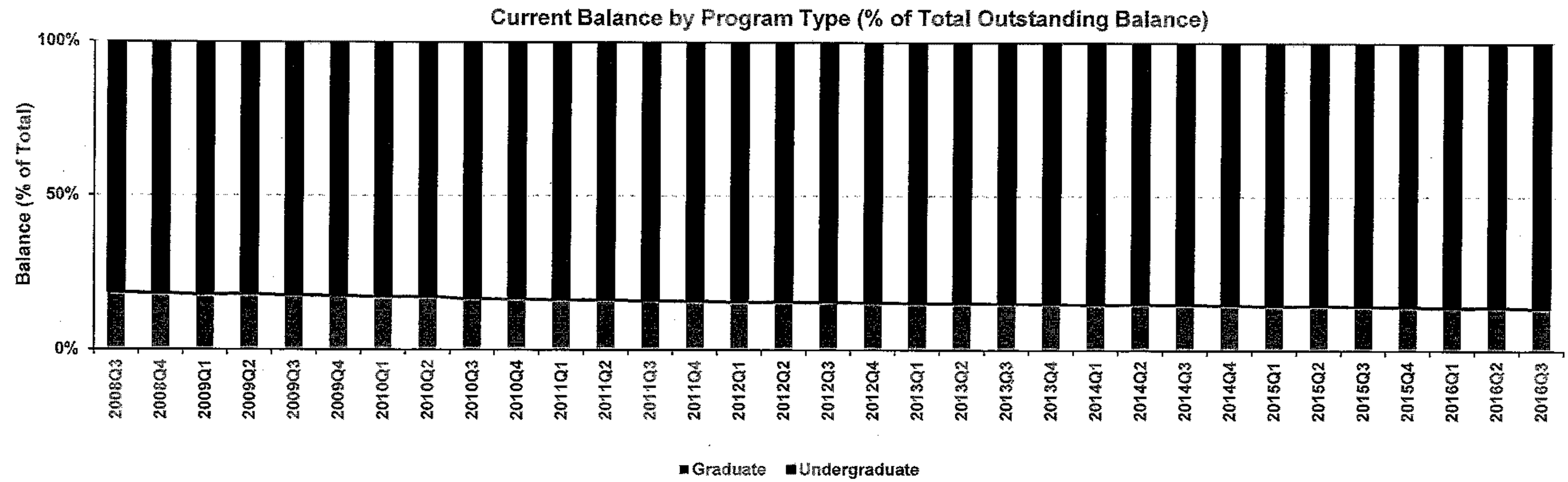
Distribution by Program Type (% of Total Outstanding Balance)
As of Q3 2016



Quarter	Undergraduate	Graduate
2009Q3	82.32%	17.68%
2009Q4	82.54%	17.46%
2010Q1	82.82%	17.18%
2010Q2	82.81%	17.19%
2010Q3	83.40%	16.60%
2010Q4	83.58%	16.42%
2011Q1	83.83%	16.17%
2011Q2	83.81%	16.19%
2011Q3	84.04%	15.96%
2011Q4	84.18%	15.82%
2012Q1	84.41%	15.59%
2012Q2	84.39%	15.61%
2012Q3	84.57%	15.43%
2012Q4	84.68%	15.32%
2013Q1	84.87%	15.13%
2013Q2	84.83%	15.17%
2013Q3	84.97%	15.03%
2013Q4	85.06%	14.94%
2014Q1	85.20%	14.80%
2014Q2	85.13%	14.87%
2014Q3	85.28%	14.72%
2014Q4	85.36%	14.64%
2015Q1	85.54%	14.46%
2015Q2	85.49%	14.51%
2015Q3	85.68%	14.32%
2015Q4	85.82%	14.18%
2016Q1	86.05%	13.95%
2016Q2	86.00%	14.00%
2016Q3	86.22%	13.78%

PROGRAM TYPE (BY QUARTER)

Undergraduate loans are making up a greater percentage of the total outstanding balance, growing from 82% in Q3 2009 to 86% in Q3 2016.



Year Over Year % Change in Current Balance ($)

Program Type	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Undergraduate	10.0%	9.7%	13.2%	12.1%	11.1%	10.4%	5.6%	5.2%	5.2%	4.9%	5.0%	4.2%	4.2%	4.0%	3.9%	3.7%	3.8%	3.8%	3.3%	3.0%	2.8%	2.1%	2.5%	2.0%	1.9%	1.8%	1.7%
Graduate	4.8%	4.1%	4.9%	4.1%	3.3%	2.6%	0.8%	0.6%	0.7%	0.5%	0.9%	0.3%	0.7%	0.6%	0.7%	0.7%	1.1%	1.4%	0.8%	0.6%	0.1%	-0.8%	-0.7%	-1.8%	-2.2%	-2.5%	-2.7%

- **Undergraduate loan balances increased year over year 1.7% and represent 86.2% of the total balance, with the longer-term trend reflecting slower growth in more recent years, consistent with overall trends.**
- **Graduate loan balances decreased slightly year over year, declining 2.7 percent, and have been relatively stable since the middle of 2011; since undergraduate balances have continued to increase, graduate loans are representing a smaller share of the market each year.**

PERFORMANCE IMPROVEMENT IN THE LAST FIVE YEARS

Long-Term trends reveal substantial improvement in performance over time.

To get a complete sense of the positive performance trends in the private student loan market, it is necessary to consider a longer time horizon. The cumulative impact of incremental, year-over-year improvements is considerable.

To account for seasonal variation, we compare third quarter performance to third quarter performance over the past five years.

	Performance Over Past 5 Years						Year Over Year % Change						Change Over 5 Years
Reporting Quarter	**2011Q3**	**2012Q3**	**2013Q3**	**2014Q3**	**2015Q3**	**2016Q3**	**2011Q3**	**2012Q3**	**2013Q3**	**2014Q3**	**2015Q3**	**2016Q3**	**2016Q3**
30-89 (% of Repay)	4.77%	4.22%	4.11%	3.31%	2.95%	2.69%	-5.05%	-11.57%	-2.66%	-19.30%	-10.90%	-8.84%	-43.58%
90+ (% of Repay)	3.97%	4.10%	3.21%	2.49%	2.27%	1.93%	-14.49%	3.27%	-21.78%	-22.34%	-8.94%	-14.90%	-51.39%
Annualized Gross Charge-offs (% of Repay)	4.84%	4.01%	3.20%	2.49%	2.39%	1.89%	-26.32%	-17.12%	-20.10%	-22.30%	-4.17%	-20.81%	-60.95%
Forbearance (% of Total)	2.77%	2.12%	2.19%	2.45%	2.28%	2.24%	8.43%	-23.41%	3.45%	11.79%	-7.13%	-1.47%	-18.94%
Grace (% of Total)	7.22%	5.72%	4.85%	4.75%	4.70%	5.03%	-19.16%	-20.72%	-15.21%	-2.17%	-1.02%	7.10%	-30.28%
Deferment (% of Total)	22.19%	20.66%	20.16%	19.61%	18.83%	18.23%	-16.88%	-6.90%	-2.44%	-2.71%	-3.96%	-3.20%	-17.85%
Repayment (% of Total)	67.82%	71.50%	72.80%	73.19%	74.19%	74.49%	9.71%	5.42%	1.82%	0.54%	1.37%	0.41%	9.84%
Undergraduate (% of Total)	84.04%	84.57%	84.97%	85.28%	85.68%	86.22%	0.77%	0.63%	0.47%	0.36%	0.47%	0.63%	2.59%
Graduate (% of Total)	15.96%	15.43%	15.03%	14.72%	14.32%	13.78%	-3.85%	-3.30%	-2.60%	-2.06%	-2.71%	-3.77%	-13.64%
Current Balance	$55.76B	$57.89B	$59.59B	$61.11B	$62.19B	$62.69B	4.18%	3.83%	2.93%	2.56%	1.76%	0.80%	12.43%
Repayment Balance	$37.82B	$41.39B	$43.38B	$44.73B	$46.14B	$46.70B	14.29%	9.46%	4.80%	3.11%	3.15%	1.21%	23.49%

Balances in repayment total $46.7 billion, a 23.5% increase since Q3 2011. The growth in repayment balances is roughly twice the 12.4% increase in current balance. This indicates that while the total balance of loans increased at a rate of $1.4 billion per year on average, the share of those loans in repayment increased more rapidly.

Current balance and repayment balance grew at a high rate immediately following the financial crisis. That growth has slowed, and market size has increased just marginally in the last year, while repayment balances continue to increase at a higher rate.

Early-stage delinquency as a percent of loans in repayment is down 43.6% from Q3 2011, and late-stage delinquency is down 51.4% from Q3 2011. As of Q3 2016, 74.5% of all loans are in repayment status compared to 67.8% in Q3 2011, an increase of 9.8%. The increase in repayment percentage can be attributed to the use of in-school repayment plans as well as lower rates of charge-offs, forbearance and deferment.

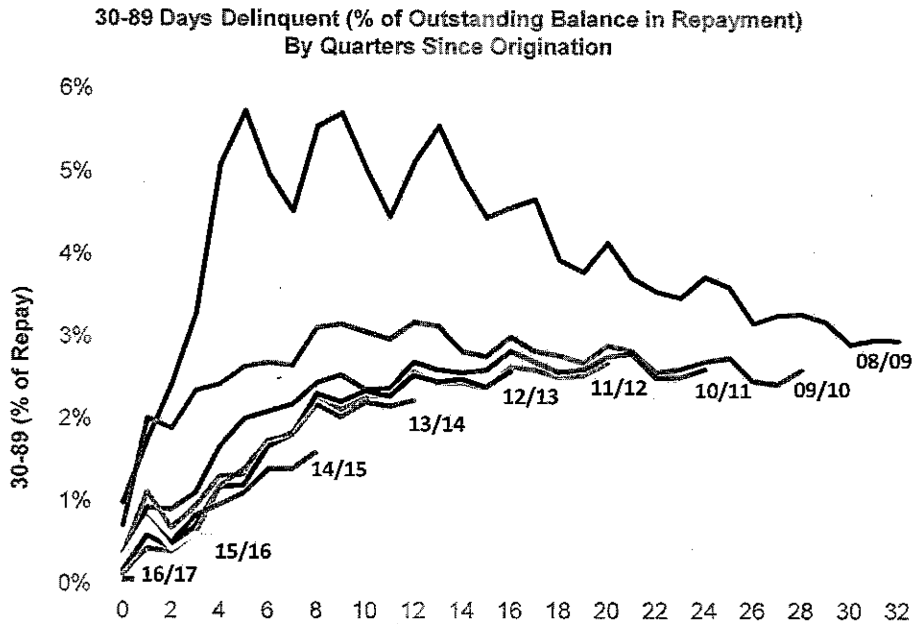
Annualized charge-offs as a percent of repayment are 1.9%, a 61.0% decline from Q3 2011 when charge-offs were at 4.8%, representing the lowest Q3 charge-off rate since before the financial crisis. In just the past year, delinquencies showed a year-over-year decline ranging from 8.8% to 14.9%, while charge-offs declined by 20.8%.

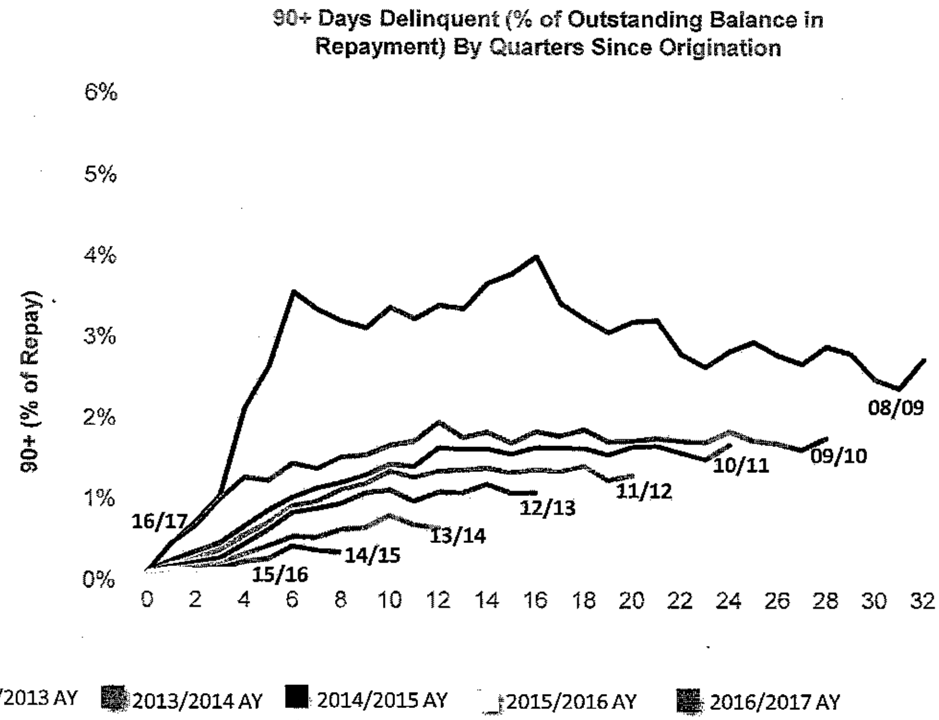
The forbearance rate, at 2.2%, is 18.9% lower than Q3 2011 and has consistently been lower than 3% as a percent of total loan balance since Q3 2011.

DELINQUENCY BY ACADEMIC YEAR OF ORIGINATION

These charts measure loan delinquencies by origination vintage, and performance of each vintage is evaluated relative to loans of similar age originated during different academic years.

Private student loan delinquencies decreased with each successive origination cohort, driven primarily by underwriting enhancements and by general improvements in the economy over time.

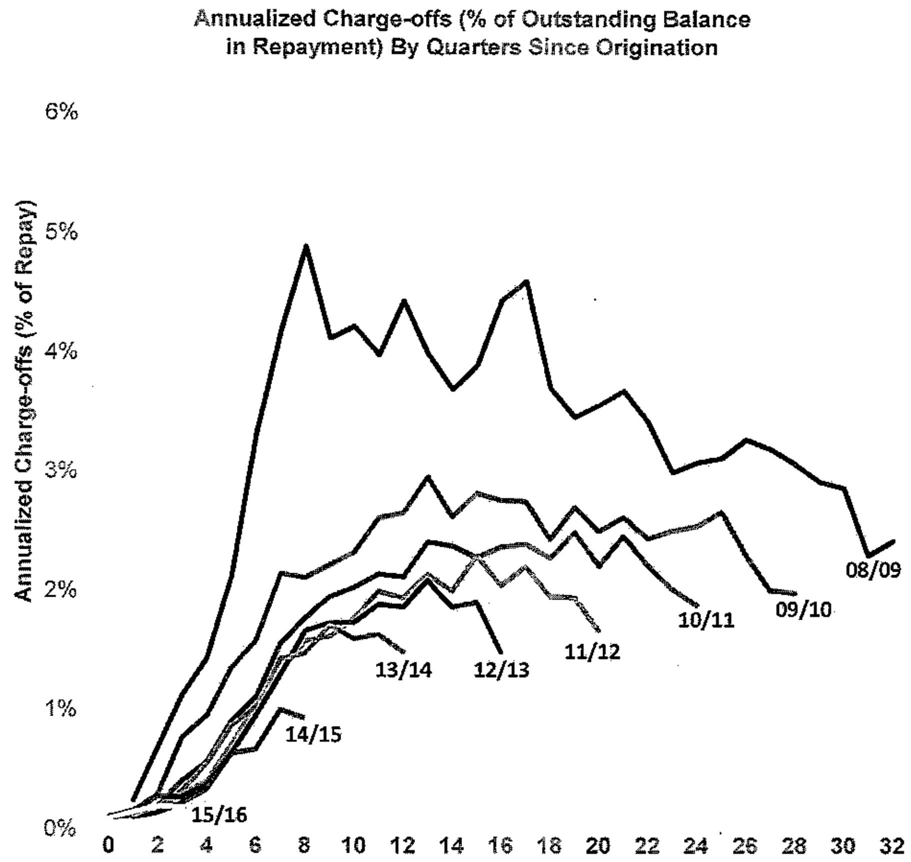


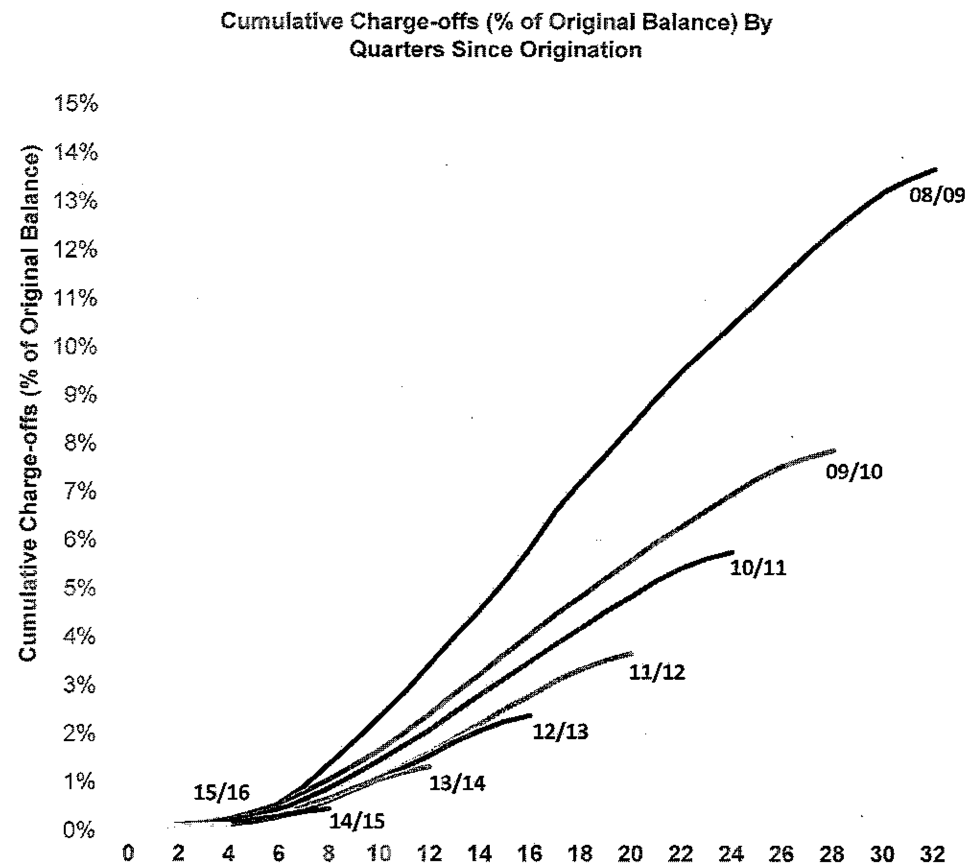


The improvement by origination vintage is extremely clear; early-stage delinquencies decreased for each successive cohort since origination. For example, early-stage delinquencies at four quarters after origination went from 5.1% to 2.4% to 1.6% to 1.3% to 1.2% to 1.2% to 0.9% for the AY2008/09 through AY2014/15 vintages. This analysis implies that the declining trends of delinquencies are likely to accelerate because loans originated in more recent academic years show lower delinquency rates than those from previous cohorts at the same stage of repayment, and those cohorts will be a larger proportion of the overall market in repayment moving forward. Late-stage delinquencies show an even clearer pattern, demonstrating that the decline in delinquencies is a sustained trend and not a short-term phenomenon.

GROSS CHARGE-OFF RATES BY ACADEMIC YEAR OF ORIGINATION

As with delinquencies, charge-off rates have strongly decreased with each successive origination cohort, improving to below pre-economic crisis levels since the AY2009/10 origination vintage. Again, this is driven primarily by underwriting enhancements and also by the general improvement in the economy over time.



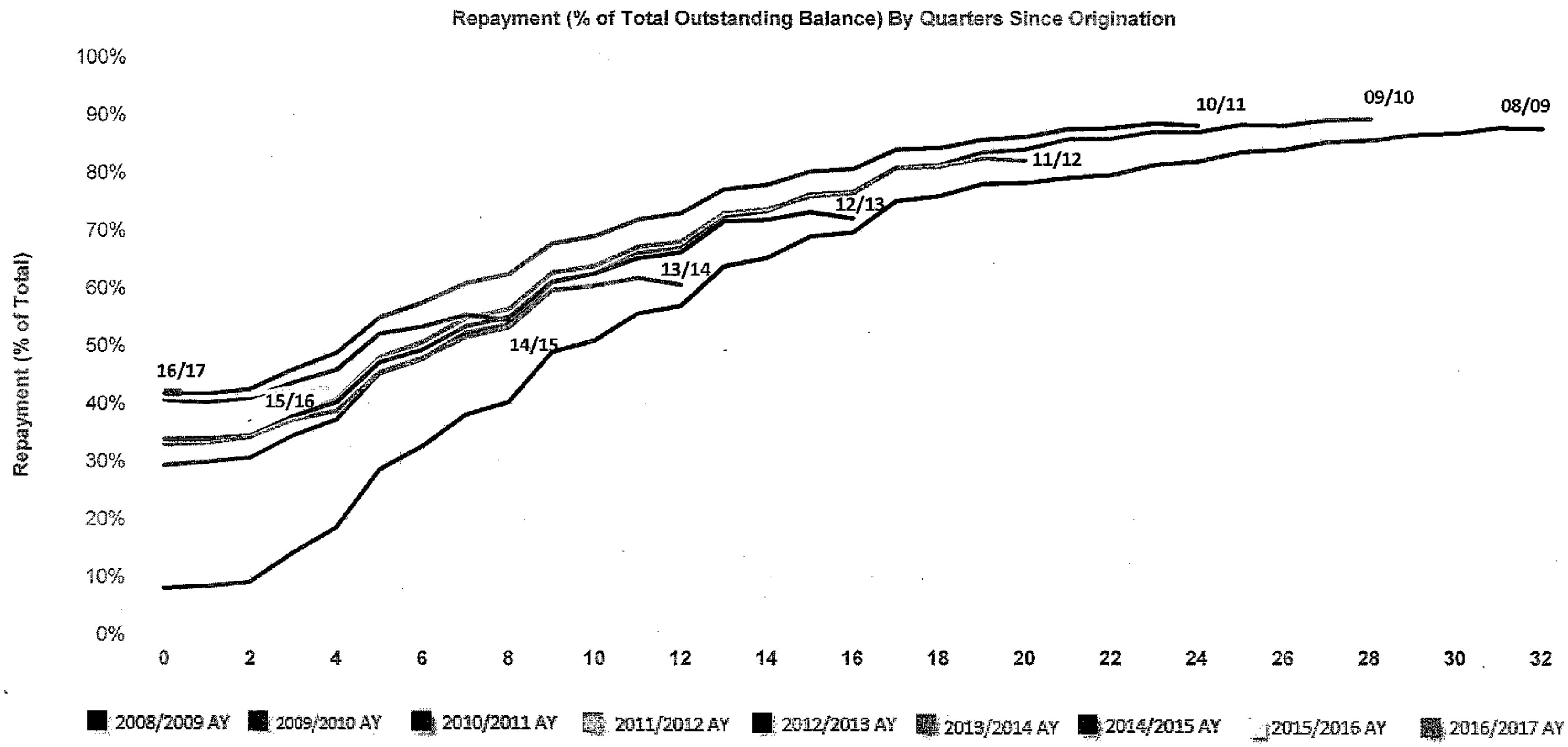


2008/2009 AY 2009/2010 AY 2010/2011 AY 2011/2012 AY 2012/2013 AY 2013/2014 AY 2014/2015 AY 2015/2016 AY 2016/2017 AY

Generally, charge-off rates peak around four years after origination, and this has remained the case across origination vintages. However, charge-offs by quarter since origination consistently decreased for each successive origination vintage across all quarters after origination, a very striking pattern. For example, cumulative charge-offs eight quarters after origination went from 1.3% to 1.0% to 0.8% to 0.6% to 0.5% to 0.6% to 0.4% from the AY2008/09 through AY2014/15 vintages, as a percent of total amount disbursed for the academic year.

REPAYMENT TRENDS BY ACADEMIC YEAR OF ORIGINATION

The rate of entry of private student loans into repayment status, both while in school and after program completion, has remained steady for the past three origination vintages, after reaching peak levels with the AY2010/11 origination vintage.

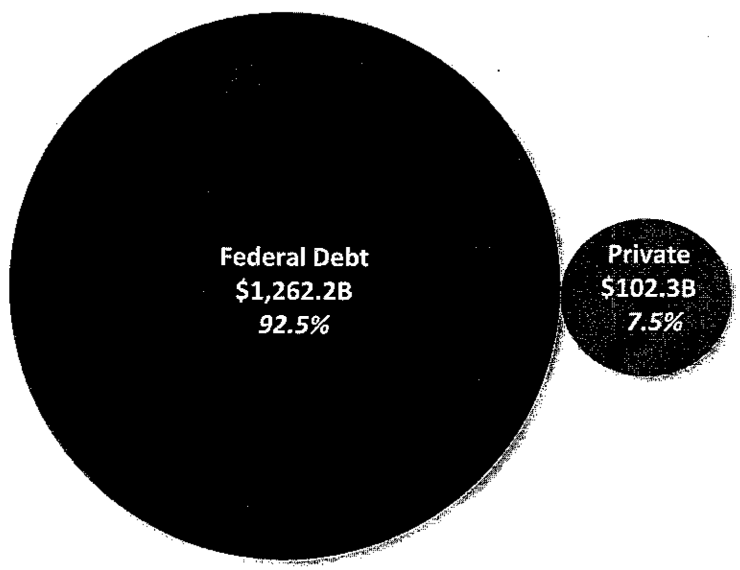


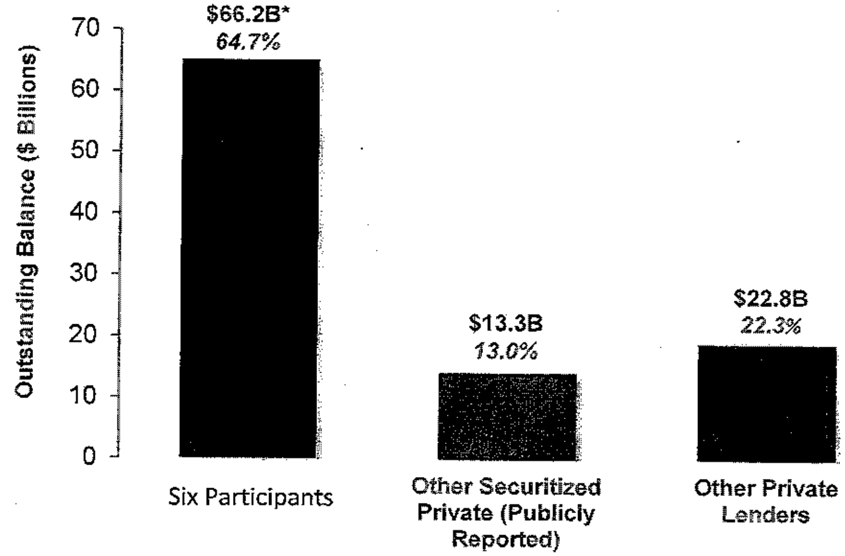
From AY2008/09 through the AY2010/11 origination vintages, the balance of loans in repayment relative to the overall current balance increased steadily in each quarter after origination. This reflected a behavioral trend in which a growing percentage of borrowers chose to make regularly scheduled payments while in school, and at the same time the private loan market began providing borrowers with financial incentives to make such payments while in school.

However, repayment patterns have stabilized since AY2010/2011. For example, repayment rates for the AY2011/12, AY2012/13, AY2013/14 and AY2014/15 vintages four quarters after origination were 41%, 40% , 39% and 46% for these four vintages, respectively, suggesting that repayment rates stabilized for these vintages.

THE STUDENT LOAN MARKET: OUTSTANDING BALANCES*

The private student loan market is 7.5% of the $1.36 trillion student loan market.





Source:
Federal Loans : https://studentaid.ed.gov/about/data-center/student/portfolio. Outstanding federal loans as of June 30, 2016
Six Participants: Includes the six participating lenders/holders.
Other Securitized Private Loans: MeasureOne standardized student loan securities data using publicly available remittance reports, which includes data from Access Group, First Marblehead, Key Corp, and other non-profit issuers. It does not include data from the six participants in the report.
Other Private Lenders: MeasureOne Survey that includes data from banks, credit unions, and student loan refinance companies.
Note: This report does not cover loans made by institutions of higher education.

The student loan market is comprised of two major components: the federal student loan market and the private student loan market. The outstanding balance for the private student loan market is estimated to be $102.3 billion, or 7.5% of the $1.36 trillion in outstanding balances for the entire student loan market. The six participants in this report represent approximately 64.7% of the entire private student loan market outstandings.

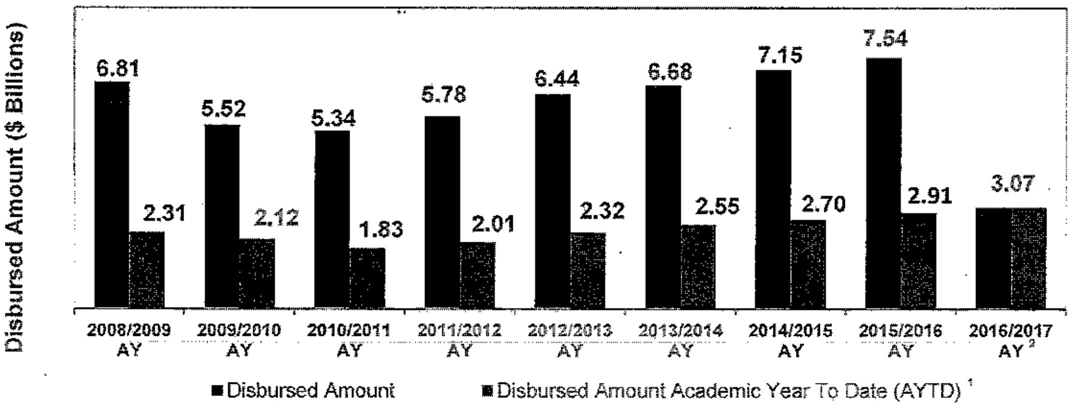
* Outstanding balance includes consolidation refinance loans.

ORIGINATION VOLUME AND DISTRIBUTION BY PROGRAM TYPE AND ACADEMIC YEAR OF ORIGINATION

The volume of newly originated private student loans declined from the AY2008/09 origination vintage to the AY2010/11 vintage, but has generally grown since then.

Originations for the first quarter of AY2016/17 are at $3.07B, a 5.5% increase compared to first quarter of AY2015/16.

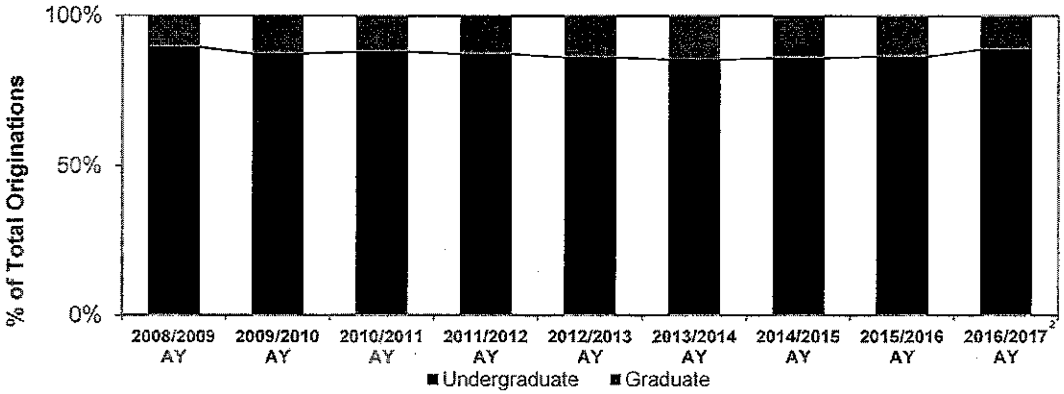
Origination Volume by Academic Year (Six Participants)



Origination Volume Academic Year to Date

Academic Year	Original Balance (AYTD)	AYTD to AYTD % Change
2008/2009 AY	$2.31B	
2009/2010 AY	$2.12B	-8.21%
2010/2011 AY	$1.83B	-13.67%
2011/2012 AY	$2.01B	10.00%
2012/2013 AY	$2.32B	15.34%
2013/2014 AY	$2.55B	10.01%
2014/2015 AY	$2.70B	5.72%
2015/2016 AY	$2.91B	7.95%
2016/2017 AY[2]	$3.07B	5.47%

Origination Volume by Program Type (% of Total Originations)[3]



Origination Volume by Program Type (% of Total Originations)

Academic Year	Undergraduate	Graduate
2008/2009 AY	89.50%	10.50%
2009/2010 AY	87.30%	12.70%
2010/2011 AY	87.90%	12.10%
2011/2012 AY	87.25%	12.75%
2012/2013 AY	86.09%	13.91%
2013/2014 AY	85.41%	14.59%
2014/2015 AY	85.87%	14.13%
2015/2016 AY	86.39%	13.61%
2016/2017 AY[2]	88.72%	11.28%

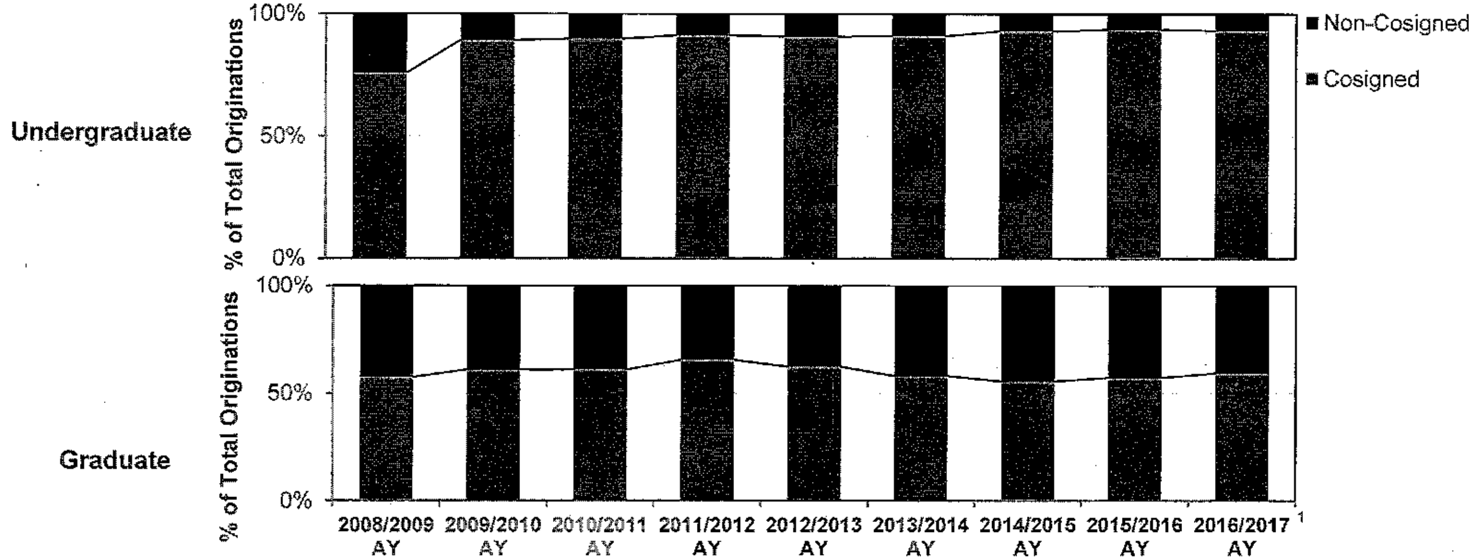
[1] Academic Year To Date (AYTD) is defined as July 1 to September 30 of each academic year.
[2] The origination volume for the 2016/2017AY is only through Q3 2016, which is not a full academic year. This is only the amounts that have been disbursed up to Q3 2016
[3] Other private student loans originated by the six participants include loans that were not coded by the six lenders, which have not been included in the table and chart by Program Type above.

COSIGNED VS. NON-COSIGNED LOAN DISTRIBUTION BY ACADEMIC YEAR OF ORIGINATION

Cosigner rates consistently remained high across all vintages, with rates rising from 74% for the AY2008/09 vintage and then remaining above 85% from that point forward.

The primary driver of the growing trend in cosigner rates is the strong increase in the percentage of cosigned loans for undergraduate programs, which has remained above 90% since AY2011/12. Conversely, the proportion of cosigned graduate loans decreased for three consecutive academic years from AY2012/2013 to AY2014/15.

Origination Volume by Cosigned vs. Non-Cosigned (% of Total Originations)



Origination Volume by Cosigned vs. Non-Cosigned (% of Total Originations) [2]

Academic Year	Undergraduate		Graduate		Total	
	Cosigned	Non-Cosigned	Cosigned	Non-Cosigned	Cosigned	Non-Cosigned
2008/2009 AY	75.82%	24.18%	57.50%	42.50%	73.90%	26.10%
2009/2010 AY	89.12%	10.88%	60.97%	39.03%	85.54%	14.46%
2010/2011 AY	89.84%	10.16%	60.99%	39.01%	86.35%	13.65%
2011/2012 AY	91.20%	8.80%	65.50%	34.50%	87.92%	12.08%
2012/2013 AY	90.68%	9.32%	62.41%	37.59%	86.75%	13.25%
2013/2014 AY	91.00%	9.00%	58.08%	41.92%	86.20%	13.80%
2014/2015 AY	93.02%	6.98%	55.48%	44.52%	87.72%	12.28%
2015/2016 AY	93.55%	6.45%	57.25%	42.75%	88.61%	11.39%
2016/2017 AY [1]	93.23%	6.77%	59.33%	40.67%	89.41%	10.59%

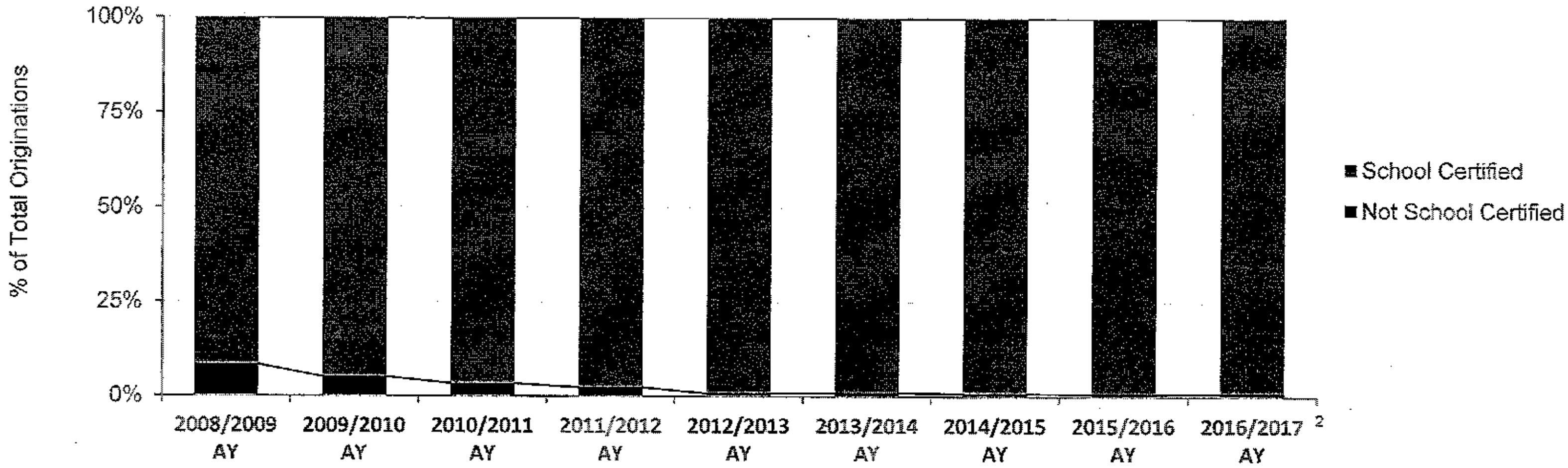
[1] The origination volume for the 2016/2017AY is only through Q3 2016, which is not a full academic year.
[2] This does not include loans that were not coded by the six participants.

Cosigners play a vital role in ensuring that students have access to financing. Cosigners enable lenders to extend credit they otherwise would not extend, based on a documented ability to repay, and support repayment of the loan obligation. Cosigner rates, as a result, are associated with higher loan performance outcomes.

SCHOOL CERTIFICATION BY ACADEMIC YEAR OF ORIGINATION

There has been a virtually universal adoption of school certification for private student loans.

Origination Volume by School Certified vs. Non School Certified (% of Total Originations)[1]



Academic Year	School Certified	Not School Certified
2008/2009 AY	91.62%	8.38%
2009/2010 AY	94.85%	5.15%
2010/2011 AY	96.60%	3.40%
2011/2012 AY	97.59%	2.41%
2012/2013 AY	99.19%	0.81%
2013/2014 AY	99.03%	0.97%
2014/2015 AY	99.18%	0.82%
2015/2016 AY	99.31%	0.69%
2016/2017 AY [2]	99.10%	0.90%

[1] This does not include loans that were not coded by the six participants.
[2] The origination volume for the 2016/2017AY is only through Q3 2016, which is not a full academic year.

School certification indicates that the school certifies the amount of a student's need and receives loan proceeds directly from the lender. School certification provides important protection against overborrowing by matching costs to funding. Active originating lenders in the Private Student Loan Consortium, which comprises the vast majority of the market, universally require school certification as a core part of their private loan programs for both undergraduate and graduate students. As a result, school certification rates have consistently been above 99% for the last four academic years.

Bar exam loans and residency loans are examples of loans for which school certification is not applicable.

DEFINITIONS

30-89 (% of Repay): Balance of loans that are 30 to 89 days past due on payments, divided by balance of loans in Repayment (Loan Status).

90+ (% of Repay): Balance of loans that are 90 or more days past due on payments, divided by balance of loans in Repayment (Loan Status).

90+ Days Delinquent: A loan that is 90 or more days past due on payments and before it is reported as a charge-off to credit reporting agencies. Also referred to as a "seriously delinquent loan."

Academic Year: A loan is defined to be originated in an Academic Year, if its first disbursement is between July 1 of a year through June 30 of the following calendar year.

Annualized Charge-off Rates (% of Repay): Gross charge-offs for a quarter divided by the quarter end balance in repayment (Loan Status), multiplied by four (or annualized).

Cosigned Loan: A loan that is cosigned by another responsible party, usually a parent or family member.

Cumulative Charge-off Rates (% of Original Balance): The sum of gross charge-offs for every quarter since disbursement, for each academic year, as a percentage of the total dollars disbursed for the academic year.

Delinquent Loan: An active loan for which payments are required, and for which the borrower is delinquent.

Direct Loans: Educational loans provided by the William D. Ford Federal Direct Loan Program to students and parent borrowers directly through the U.S. Department of Education, rather than through a bank or other lender.

Federal Loans: FFELP, Direct, and Perkins loans.

FFELP: Federal Family Education Loan Program, a program that was discontinued in July 2010.

Graduate Loans: Loans made to borrowers enrolled at least half-time in graduate programs.

Gross Charge-offs: The total dollar amount of the loan that is entirely charged off.

Loan Status: A typical private student loan lifecycle consists of numerous cash flowing and non-cash flowing statuses:

1. Repayment: for purposes of this report, repayment includes borrowers in school with a repayment obligation (i.e., interest only or minimum payments);
2. Deferment: payments are not required during the initial in-school period, and during subsequent periods when a borrower returns to school;
3. Grace: payments are not required during a short period of time following withdrawal/graduation from school (typically at least six months);
4. Forbearance: payments are temporarily not required for borrowers facing financial hardship.

Original Balance: The net amount disbursed on the loan in a given academic year.

Program Type: Undergraduate or graduate program of study for which the loan was obtained.

Repayment (% of Total): Balance of loans in repayment (Loan Status), divided by total outstanding balance of all loans.

School Certified Loan: A loan for which the school attended by the student certifies the amount of the student's need and receives loan proceeds directly from the lender.

Undergraduate Loans: Loans made to borrowers enrolled at least half-time in undergraduate programs. These include four-year and less than four-year undergraduate programs.

MEASUREONE METHODOLOGY FOR DATA COLLECTION, VALIDATION AND REPORTING

1. MeasureOne employed a rigorous data definition, collection and validation process to ensure that the data and related metrics provided in the Private Student Loan Report are accurate and consistent across participating lenders.
2. Upon initiation of the project, MeasureOne and the six participants formed a data committee composed of both data professionals and business leaders from the participants. This committee both ensured technical accuracy of the data and provided key decision makers an opportunity to validate the results for reasonableness.
3. MeasureOne went though a detailed, multi-step data collection process:
   A. MeasureOne and participants discussed and agreed on data fields to be provided, including agreement on appropriate definitions.
   B. MeasureOne provided a mock data file layout to participants.
   C. Participants agreed on the formulas to be used to calculate each field and metric.
   D. Participants supplied the base input numbers that MeasureOne required in order to calculate each metric.
4. Each participant validated MeasureOne's calculations of each metric, including the inputs into each calculation.
5. Once the data experts from each participant validated their data set, MeasureOne sent the information to participant's business leaders, who reviewed the numbers for accuracy relative to other internal data sources.
6. After each participant's data set was validated, MeasureOne aggregated the participant's data into a Combined Data Set, and the data experts and business leaders from the participants reviewed the Combined Data Set.
7. When the participants completed their review of the Combined Data Set, MeasureOne required each participant to sign and certify the accuracy of the data via a document called the MeasureOne Data Validation and Certification. Participants represented in writing that:
   A. The participant carefully reviewed their specific Data Set and the Combined Data Set, and explicitly confirmed that each data set was materially accurate.
   B. The participant explicitly approved incorporation of their data set into the MeasureOne Combined Data Set for final inclusion in the Report and Report's data supplement.
8. Other Securitized Private Loans: MeasureOne standardized student loan securities data built using publicly available remittance reports, which includes data from Access Group, First Marblehead (the non 144A securitized portfolios that First Marblehead no longer has legal control of the related trusts), Key Corp and other non-profit issuers. It does not include data from the six participants in the report and other bank private student loan holders that did not participate in this report, such as JPMorgan Chase Bank, N.A. and US Bancorp.
9. In order to report the most up-to-date figures in each Private Student Loan Report, MeasureOne checks the historical time series data for each release of the report and the most up-to-date figures are reported. As a result, historical figures in this report may show slight, nonmaterial differences from previous reports.
10. Year over year and the 5 year change metrics are calculated using full precision values and not the rounded values of the underlying metrics displayed in the report. This is a policy MeasureOne adopts to ensure accuracy of the change metrics.
11. Balances are defined as of quarter end while charge-offs are those that occurred during the entire quarter.

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Private Student Loan Consortium

MeasureOne has developed the first and only Private Student Loan Consortium in the United States, a data cooperative of the nation's largest lenders and holders of private student loans. By providing proprietary data, individual Consortium members contribute to a collective database that provides insight and unique perspective into the student lending industry. This contributory data collective allows MeasureOne to apply data science and industry expertise in order to increase understanding of student lending, risk assessment, repayment, capital market investments and public policy development.

MeasureOne would like to thank the members of the Consortium for their participation in this research report and their ongoing efforts to increase transparency in the trillion-dollar student loan market. For more information on the MeasureOne Private Student Loan Consortium, please contact Samantha Gomes – SGomes@MeasureOne.com

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