

STUDENT LOAN SOURCES AND PRACTICES: A PRIMER



The costs of attending college have increased significantly since the 1990s: tuition and fees at Tennessee public postsecondary institutions more than doubled between 1997-98 and 2007-08. As the costs for attending college continue to rise, Tennessee college students are increasingly relying on loans to finance their education.

In 2008, the Tennessee General Assembly passed Public Chapter 1103 directing the Office of Education Accountability (OEA) to study practices and sources of student loans at Tennessee institutions. In response, OEA produced *Student*

Loan Sources and Practices: A Primer as an introduction to the complex world of student loans.

What types of loans are available to student borrowers in Tennessee?

Federal loans are provided, guaranteed, or otherwise funded by the federal government and are the largest source of student loans. Interest rates and fees for all federal student loan programs are determined by statute, and interest rates remain fixed for the life of the loan. They include: loans provided by the federal government (Direct); loans guaranteed by the federal government, but made by private lenders (FFELP); and federal money that goes to postsecondary institutions to loan to their students (Perkins).

Private Loans are made outside the federal student loan program by banks or commercial lending institutions. Most private loans carry variable interest rates based on a borrower's credit history, and some loans have adjustable rate features such as different rates for in-school and repayment periods.

Other Loans include short-term, small loans offered by postsecondary institutions, often called "emergency loans." In addition, Tennessee offers loan forgiveness incentives to students in exchange for certain types of work service.

What is the process to obtain a student loan?

For federal loans, a student must first meet certain eligibility requirements then apply for loans by completing the Free Application for Federal Student Aid (FAFSA). Schools offer students loan amounts based on the student's need and the amount they or their parents are estimated to be able to contribute to tuition and fees, not on their credit score. After the student accepts the loan, he or she attends loan counseling to learn about rights and responsibilities concerning the loan.

For private loans, students complete applications received directly from the lender or from materials distributed through school financial aid offices. Loan counseling is not required, but prior to borrowing students must be notified of the interest rate of the loan, the amount financed, and the conditions under which the interest rate will increase.

What are the responsibilities of colleges and universities?

Tennessee higher education institutions that are qualified to participate in the federal student loan programs must follow specific federal loan regulations and procedures. By contrast, private student loan regulations do not include specific provisions affecting school financial aid operations.

Proposed Changes to Federal Student Loans

President Obama's 2010 budget blueprint proposes eliminating the government-backed, private lender-based Federal Family Education Loan Program (FFELP) by June 30, 2010. Under this proposal, the federal government would become the sole lender for all federal student loan programs. According to the Congressional Budget Office, the move to Direct Loans would save an estimated \$94 billion over the next ten years.

View the full report at <http://www.tn.gov/comptroller/orea>

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