Chairman Dembrow, Vice Chair Huffman and Committee Members:

Thank you for the opportunity to present information on federal student loans before you today. My name is Jim Brooks, and I am the Director of Student Financial Aid and Scholarships at the University of Oregon. I have served in this position for almost 2 years, previously having served as the Director of Student Financial Aid for three years at a flagship institution in the Midwest. I have 25 years of experience as a financial aid administrator, and have been active at the state, regional and national levels.

In my current position, I direct an organization that is responsible for determining eligibility, awarding, and processing around $240m of student aid to a population of just under 25,000 students. This student aid comes from federal, state, institutional, foundation and private sources, and it all enables University of Oregon students to earn undergraduate, graduate and professional degrees, including law and architecture.

As financial aid professionals, we take a long term view of supporting students and families with understanding and paying for the cost of higher education. Each of the OUS institutions has a staff of financial aid professionals who work with families to answer questions. We all host web sites that describe the true cost of attending our institutions, and provide information for aid applicants and recipients. And, we work very hard to promote financial literacy as students are making choices about financial aid, course loads, and their financial futures..

Student loans are very much in the news. There is no doubt that federal student loans are the largest component of the aid that is used by University of Oregon students, and students at the other Oregon University System institutions across the state of Oregon, exceeding all state, institutional and philanthropic sources combined. While many students take on debt to pay for higher education, a significant percentage of students still do not need loans earn a degree. Across the Oregon University System, around 59% of students complete their degree requirements with the assistance of student loans – that means about 41% are graduating debt free. With the Great Recession, we've seen the numbers of students taking on debt increasing. Prior to 2007, we saw more borrowing from private sources than we do today. Private student loan borrowing was increasing 25% to 35% each year, and many in the financial aid community were worried about high cost predatory lending practices. With the subprime mortgage credit crisis, as lenders found limited access to the capital needed to make new loans, the growth of the private loan market was halted.

For many students, their debt is comprised of more than one student loan program. While the Ford Federal Direct Loan program is the most used student loan program, many students also borrow under the Federal Perkins Loan program, one of the campus based aid programs. At the graduate level, students also have the option to borrow under the Graduate PLUS Loan program, a program that supplements the Direct Loan program since parents of graduate and professional students cannot borrow under federal loan programs to assist their students with post-baccalaureate educational costs.

Let me give you some background on the process that students are required to follow in order to borrow student loans. As you most likely know, the process starts with the Free Application for Federal Student Aid, most familiarly known as the FAFSA. While many families do not consider student loans to be financial aid, they are one of the Title IV aid programs. When the student files the FAFSA, they indicate which institutions should receive the results of the FAFSA processing. Once the school receives the information, we have responsibility to determine student eligibility for federal student aid programs. That is, just filing the FAFSA does not mean the student is eligible for federal student aid. For example, the institution is required to resolve any edits on the FAFSA, determine that the student is working on a degree or certificate program that is eligible for federal student aid, determine that the student is not in default of a federal student loan, or in repayment of federal student aid, and is making satisfactory academic progress towards their degree.

The law requires that Federal Pell Grant eligibility be determined before a student can be considered for student loans. In the state of Oregon, we also consider an Oregonian's eligibility for the Oregon Opportunity Grant, the state need based grant program. Institutional gift funds are then awarded to students who show eligibility, as well as consideration for aid under the other campus based aid programs, Federal SEOG, and Federal Work Study. Our goal when we build a financial aid package for a student, is to ensure that all other aid eligibility is considered before we suggest that a student borrow towards their educational expenses.

If a student decides that they want to borrow a student loan, they are not just given the loan funds with no further contact. For a first year, first time borrower, they are required to go through Entrance Counseling before the school can disburse loan funds to the student. As a part of the entrance counseling, the student is given information on the loan program, how it works, information on managing their educational expenses, other financial resources to consider, and then their rights and responsibilities as a student loan borrower. This is an important point of contact to promote financial literacy.

Student borrowers are also required to sign a master promissory note that covers both federal subsidized and unsubsidized Direct Loans, and is valid for ten years from the date that the student electronically signs it. So the student is not required to sign a new promissory note each year. Students who borrow under the Federal Perkins Loan program sign a different promissory note. Once the student has completed entrance counseling and signed their master promissory note, the school has to again confirm eligibility before the funds are disbursed to the student's Business Office or Cashier's account. Federal regulations do not give schools the ability to limit student borrowing as long as students meet the eligibility criteria for the loans. Consideration of their program is study is not an option, as long as they are enrolled in an eligible degree or certificate program.

OUS campuses do a number of things to help students understand their rights and responsibilities that go beyond federally mandated Entrance Counseling activities, including areas such as debt management curricula embedded in freshmen experience programs, financial literacy tools, loan repayment calculators, and working closely with borrowers considered most at-risk.

All student loans are multiply disbursed, that is, the annual loan amount is divided evenly between the terms in the loan period. For example, in a school where three quarters make up the academic year, the student's loan is disbursed in thirds, and each disbursement cannot be made more than 10 days before the start of each term in the loan period. The student can decide at any point that they do not want any subsequent loan disbursements, in which case the school would update their records to reflect the student's request, and cancel any subsequent disbursements to the student. We do this to help the students handle these loan funds responsibly.

To ensure that students are aware when they receive student loan funds, we send students a loan disbursement notification when each disbursement of their federal loan funds credits to their Business Office account. They also receive a disclosure notice from the Department of Education, with information on their loan.

Students are required to complete exit counseling when they have completed their program of study, or if they cease enrollment. Exit counseling again reminds them of their loan repayment responsibilities, and provides information on when loan repayment begins. Students have a 6 month grace period after completing their program of study, or ceasing enrollment after which they begin repaying their loans.

For some students, the federal student loan programs do not provide sufficient resources. If they are dependent, their parent(s) may choose to borrow under the PLUS Loan program, a federal parent loan program that does not have annual limits, so parents can borrow up to the cost of attendance. While student loan debt has received considerable attention, there is rising concern about how much parents may be borrowing. For graduate and professional students, the Grad PLUS program helps make up some of the difference between the cost of their programs of study, and the Direct Loan annual limits. As mentioned previously, there are also private lenders offering loan programs that are geared towards students. With interest rates where they currently are, in some cases these loan programs may have lower interest rates than do the federal student loan programs. There are students to whom that is very appealing. Congress is currently considering borrower costs.

However, as financial aid administrators, we encourage students to use private loan programs as a last resort. While the interest rates may currently be lower, they are typically not fixed rate loans, and so the student may start with an interest rate that is very competitive, but in the long term becomes very expensive, and does not offer the loan repayment options, or borrower protections that exist in the federal loan programs. The federal government has tried to add some protections for students, for example, the Truth in Lending Act requires that an alternative student loan lender must obtain a self-certification signed by the applicant before disbursing a private education loan. The school is required on request to provide this form or the required information only for students admitted or enrolled at the school. The form provides notifications that there may be free or lower cost federal, state or school financial aid programs.

The average debt of graduating seniors across the Oregon University System was $23,839 for the class of 2011. (The median debt for the class was $18,147.) In comparison, according to the Project on Student Debt, nationally the average debt of graduating seniors in 2011 was $26,600 with 66% of the class having student loan debt. In the state of Oregon, the average debt of the same class was $25,497, with 63% of the class having student loan debt.

Unlike the portrayal in many media stories, not every student is in trouble because he or she borrows money. Debt becomes a problem for a number of reasons:

- Students don't complete their courses of study and don't graduate
- They are unemployed for extended periods of time post-graduation.
- Their families have little or no borrowing or repayment experience.
- Students take more than four years to complete their degrees.
- Students make decisions to pursue advanced degrees, greatly increasing the debt levels.

Student debt is an area of great concern for financial aid advisors. We are encouraged that most students and families work to minimize debt and borrow responsibly. We appreciate the committee's consideration of this important topic.