No Debt About It
April 18, 2013
Student Debt Statistics

• In 2012, Student Loan Debt reached $901 billion which represents a 145% increase when comparing the first quarter of 2005 to the first quarter of 2012
• Student Loan Debt now exceeds Credit Card Debt ($693 billion) and auto loans ($730 billion)
• Number of borrowers increased from 23.3 million in 2005 to 37.1 million in 2012 (60% increase)
• Borrowers under 30 experienced a 120% increase during these two periods
• Borrowers between 40-49 had increases of 185% while 50-59 experienced increases of 202%
Why are Schools Concerned with the Student Debt Crisis?

- High Default Rates can result in loss of Title IV financial aid
- New Program Integrity Rules require schools to disclose in the recruitment materials statistics on graduation rates and median student debt
- Schools are required by the U.S. Department of Education to provide entrance and exit counseling to all student borrowers
Cohort Default Rates

- A cohort default is defined as a student who has defaulted on his/her loan within (3) years of ending enrollment
- Default is defined as a loan 360 days past due
- Institutions could lose Title IV eligibility if their default rate exceeds 25% for the two year calculation, 30% for the three year calculation or 40% in a single year
Cohort Default Rates

- FY09 3 Year Cohort Default Rate Statistics calculated August 2012
  - Most recent national average is 13.4%
  - Default rate of all Illinois Colleges is 14.4%
  - Illinois Community Colleges default rate is 19.8%
  - State with the highest default rate is Arizona – 22.9%
  - State with the lowest default rate is North Dakota – 5.1%
Substantiate the Cohort Default Rates

- Schools should review their “Loan Record Detail Report” which is used to calculate the Cohort Default Rate (CDR) regardless of the rate
- School has a responsibility to challenge incorrect data in the CDR and can submit an appeal
Student Loan Disclosure

• Program Integrity Rules
  • Disclosure requirements went into affect on July 1, 2011 and required the following:
    • The name and U.S. Department of Labor's Standard Occupational Classification (SOC) code
    • The on-time graduation rate for students completing the program
    • The tuition and fees the institution charges
    • The typical costs for books and supplies
    • The job placement rate for students completing the program
    • The **median loan debt** incurred by students who completed the program
Required Loan Counseling

- Entrance Counseling
  - Required for ALL 1st time borrowers of student loans
  - Some institutions require entrance counseling for students borrowing the first time from their institution
  - Counseling must be completed PRIOR to student receiving 1st student loan disbursement
  - Can be done face-to-face or students can do counseling session on-line
    - www.StudentLoans.gov
- Exit Counseling
  - Required for all student loan borrowers leaving school or dropping below half-time enrollment
  - Counseling geared towards advice on repaying student loan
Financial Awareness Counseling

• This counseling is NOT required by the Department of Education but it is an excellent tool in helping you understand your financial aid and assist in managing your finances
• Offering financial literacy courses as a class or on-line class
  • Class sign-up instructions should be included on financial aid award letter and by email invite
• Counseling should occur after starts attendance and is a bridge between entrance and exit counseling
  • [www.StudentLoans.gov](http://www.StudentLoans.gov)
Financial Awareness Counseling

• Components of Financial Awareness Counseling
  • Understand Your Loans
  • Manage Your Spending
  • Repayment Options
  • Consequences of Defaults
  • Make Finances a Priority
Financial Awareness Counseling

• Understand Your Loans
  • Loan basics show student the amount of interest paid over life of loan
  • Free Money First encourages students to explore grants, scholarships, work-study opportunities and military benefits.
Financial Awareness Counseling

• Manage Your Spending
  • Living Within Your Means asks the student to list their funds as well as anticipated expenses. One of those expenses is “savings.”
  • Control your expenses by sharing rides to school, buying used textbooks or even “renting” books
  • Plan for your large expenses such as tuition and books since they occur the same time each year
  • Includes interest savings calculator on how much interest you can save by paying the interest as you borrow (Unsubsidized Loans)
Financial Awareness Counseling

• Plan to Repay
  • Calculates student repayment amount
  • Discussion of other repayment plans such as income-based repayment or income contingent repayment where repayment is a % of the student’s discretionary income
  • Answers questions on when repayment starts and gives repayment tips such as how much interest is saved if additional funds are paid toward the principal
Financial Awareness Counseling

• Avoid Default
  • Encourages students to:
    • Request less than the amount they qualify for
    • Finish their program and graduate. Students who continue their education and receive a 4 year degree earn on average $1,000,000 over their lifetime than a high school graduate.
    • Pay loan payments on-time or notify loan servicer
Financial Awareness Counseling

- Avoid Default (cont’d)
  - Consequences of defaulting on loans:
    - Federal student loans are not eliminated under personal bankruptcy
    - Denied professional licenses
    - Income withheld as wage garnishment
    - Tax refunds withheld and applied to debt (tax offset)
    - Damaged credit score
    - Finding housing (renting or purchasing) will be difficult
Financial Awareness Counseling

• Make Finances a Priority
  • Students need to set both short and long term goals that include:
    • Paying interest on unsubsidized student loans
    • Paying off credit card debt
    • Saving for large purchases (car, home, etc.)
    • Saving for retirement
    • Setting up an emergency fund that covers 3 to 6 months of normal expenses
Financial Awareness Counseling

• Make Finances a Priority
  • Explaining income taxes by illustrating what is typically withheld from their gross income
  • Introduction of IRS Tax Benefits for Education
  • Establishing good credit by limiting purchases and paying off balances of credit cards monthly
  • Making student loan payments on time helps establish a good credit history
Ideas to Reduce Defaults

• Identify the following types of high risk students:
  • withdraw prematurely from the institution or receive no-show grades
  • attended multiple institutions
  • take 100% on-line classes
  • with a high amount of debt from other institutions or are approaching aggregate loan limitations
Ideas to Reduce Defaults

• Schools are required to wait 30 days after class begins to disburse loans to 1st time borrowers, however, some schools wait for 30 days to disburse to all student borrowers
• Not auto-packaging loans on award letter, instead requiring borrower to request loans
• Require borrowers to sign a new Master Promissory Note each year to serve as a reminder of their repayment responsibility
• Require exit counseling each year they are at institution
• Require face-to-face entrance counseling for students with high student debt balances or students who have transferred in
• Require 100% on-line course students to come to campus for face to face entrance counseling
Ideas to Reduce Defaults

• Improving Communication Across Campus
  • Financial aid office
  • Registrars office
  • Finance office
  • Career services office
• Consider a dedicated Default Prevention and Student Retention staff
• Consider hiring a 3rd party company to make contact with student borrowers
Ideas to Reduce Defaults

• Default and Prevention Management
  • Only required for high default rate schools but ALL schools can benefit with implementation
  • Benefits students by teaching them good debt management practices and establishing a healthy credit history and demonstrating financial responsibility
  • Contact students at least 60 days delinquent on their loans (or use a 3rd party)
Proposed Student Loan Legislation

• Congressman Tom Petri (R-Wisconsin) introduced “Earnings Contingent Education Loans (ExCEL) Act of 2012”
  • % of borrowers earnings automatically withheld to pay student debt (up to 15% of income)
  • % would change depending on your income level and if you lose your job or become ill your payments would stop
  • UK, Australia, and New Zealand have had great success (UK has 98% meeting loan obligations)
Resources

• NACUBO – *Student Debt Hits $901 Billion*
  • [www.StudentLoans.gov](http://www.StudentLoans.gov)
  • [www.ifad.gov](http://www.ifad.gov)
  • [www.nslds.ed.gov](http://www.nslds.ed.gov)
  • [www2.ed.gov](http://www2.ed.gov)
Questions?

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About Sikich

- **Multi-disciplinary**: An accounting, advisory, investment banking, technology and managed services firm with clients in the U.S. and internationally.

- **Excellent reputation**: With a reputation for professional excellence, Sikich provides unsurpassed client service as well as timely and cost effective services.

- **Strong talent**: We employ more than 400 talented people including 71 partners, all of whom devote their careers to a focused area.

- **Award winning**: *Accounting Today* ranks the Firm 40th nationally among the top 100 accounting firms and 12th in the top 100 VARs.

$76M in revenue in 2012

6,776 public and private sector clients

7,364 individual clients

153,882 square feet to serve clients

400+ total personnel

71 partners

1 collaborative and positive culture
Honors & Recognitions

Accounting

• #40 in Accounting Today’s 2013 Top 100 Accounting Firms
• INSIDE Public Accounting’s Top 50 Accounting Firms in 2012
• INSIDE Public Accounting’s All-Star Firms in 2012

Technology

• Top 1% of all ERP solution partners in the world
• 2012 Microsoft Dynamics Inner Circle
• 2012 Microsoft Dynamics President's Club
• #12 on Accounting Today’s Top 100 VARs in 2012
• #13 on Bob Scott's Top 100 VAR List for 2012
Tracing Our Roots

1982
Sikich Gardner & Co. was formed; takes up residence in Aurora and Springfield

1998
Merges with Intelligent Computer Solutions LLC and starts its technology practice

2008-2011
Merges with 4 CPA firms and solidifies position in the Top 50 with more than 375 employees

2012
30th Anniversary

$0
$10,000,000
$20,000,000
$30,000,000
$40,000,000
$50,000,000
$60,000,000
$70,000,000
$80,000,000

Sikich Service Lines

Accounting, Audit & Tax
- Financial Reporting
- Employee Benefit Plan Audit
- Accounting Services
- Tax Planning

Advisory
- Business Valuation
- Dispute Advisory
- Financial Advisory
- Flex-Staff Solutions
- Human Resources
- Marketing & Public Relations
- Supply Chain

Investment Banking
- Acquisitions Advisory
- Sales Advisory
- Capital Raises
- Strategic Advisory

Technology
- Accounting & ERP Software
- CRM Software
- IT Infrastructure
- Cloud & Hosting Solutions
- Strategic IT Planning
- Communication & Collaboration
- IT Consulting

Managed Services
- Outsourced Accounting
- Managed IT
- Outsourced Human Resources
- Outsourced Marketing
- & Public Relations

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» Higher Education
» Non Profit
» Government
» Healthcare
» Agriculture
» Manufacturing & Distribution
» Construction
» Professional Services
» Real Estate
» Retail

Deep industry experience and longevity.

Cross sectional teams with a depth and breadth of experience to handle the complete solution.

Solution centric and product agnostic.