Religious Liberty and the Path to Independence from Federal and State Funding:

A Road Map and Practical Starting Points

King Consulting Group
& Hand-Up Financial Group
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Background

Based on recent conversations with Christian colleges and universities, it appears there are several areas drawing significant attention of industry associations (like CCCU, ABACC, CCC and TRACS), boards and/or administrators. Below are two common strategic themes that we hear consistently:

1. Expansion of the scope and influence of Christian higher education domestically and across the globe; and

2. A path to independence from federal and state aid driven by religious liberties and the desire to stay “mission true.”

Environmental Drivers – Independence Path

- Increased threat to religious liberties from federal government/courts (e.g. expanded and increased Title IX enforcement during recent years).
- Increased risk to religious liberties from states (e.g. CA SB-1146, NY oversight of private religious schools).
- Bipartisan Congressional support for HEA reauthorization to include some form of risk-sharing by institutions for students that do not repay their federal loans.
- Increasingly more complex and fiscally burdensome regulatory environment.

  2016-2017 Examples:
  - New Borrower Defense to Repayment Regulations; and
  - Dept. of ED Dear Colleague Letters (e.g. gender identification)
- Loss of Perkins program and potential other reductions coming from HEA reauthorization.
- Potential compromise of mission or risk loss of federal and/or state funding.

ABACC 2016-Independence From Federal Funding Survey

Question1: On a scale of 1 to 10 with ten being "sleepless paranoia" and 1 being "no problem," how concerned are you that private faith-based institutions will be pushed out of participation in public funding for standing firm on their religious convictions related to behaviors associated with gender identity?

Answer Choices	Responses	
Lots of sleepless nights thinking about this one (I give it between 8 and 10)	17.19%	11
Occasional anxiety/thought when I hear people discussing this (I give it a 5 to 7)	62.50%	40
It crosses my mind occasionally, but have not given it much thought (3 to 5)	15.63%	10
Not on the radar... It's all good here (1 to 3)	3.13%	2
Not sure why we are even having this discussion (0)	1.56%	1
Total		64

Pathways to Independence – Key Questions

- What examples exist of schools making the transition?
- Industry infrastructure – The 2007-2009 capital crisis combined with the ensuing increased regulatory environment (namely Dodd Frank) have reduced participating lenders from over 1,500 to a few dozen and removed guarantee agencies. What are the complexities caused from this decimated landscape?
- What economic headwinds would go with this transition due to private funding sources having fewer collection remedies than the federal government?
- What student loan performance data exists at the institutional level or industry level?
- What will be the nature and source of capital under an independent model?
- What hurdles come with maintaining aid comparable to free sources like PELL and subsidized sources like SUB-Stafford that may create even greater capital-raising needs?

Christian Schools No Longer Using Title IV Aid

- Examples of Christian colleges no longer using Title IV aid:
  - Grove City College (Pennsylvania) approx. 2,500 students;
  - Hillsdale College (Michigan) – approx. 1,500 students;
  - Patrick Henry College (Virginia) approx. 300 students; and
  - Pensacola Christian College (Florida) approx. 100 students.
- The boards of the largest of the two schools, Hillsdale and Grove City, contemplated their independence from the very inception of federal aid programs in the mid 1970's due to concerns about governmental intrusion on instructional content, mission, and religious liberty.
- Both entities had actions regarding Title IV and Title IX that ultimately were resolved by the Supreme Court.
  - Hillsdale stopped accepting all Title IV aid in 1984.
  - Grove City stopped accepting Pell in 1984 and all other Title IV aid in 1996.

Let’s Start with the Current State of Student Finance

Current State of Student Finance – Three Silos

Student

- Receives subsidized interest rates on loans.
- Student repays U.S. government after graduation.
- Less than 40% of $1.4 trillion in federal loans have borrowers paying principal.

U.S Government (source of capital)

- Government funds almost everyone with minimal underwriting of student; no discount against Institutional disbursements and minimal Institutional guarantees; disbursement generally received in advance of delivery of services.
- U.S. Government guarantees the loan.
- Collections assured through a variety of mechanisms not available to any other category of consumer debt (e.g. garnishment of federal tax refunds and benefits).

Institution / School

- Develop significant connectivity and relationship with the student during in-school period.
- After student leaves school only touch point between the U.S. government and the institution is the measurement of Cohort Default Rate (CDR) for 3 years.
    - For almost all faith-based schools this is a non-issue.

Student Lending Industry Decimated – Since 2007

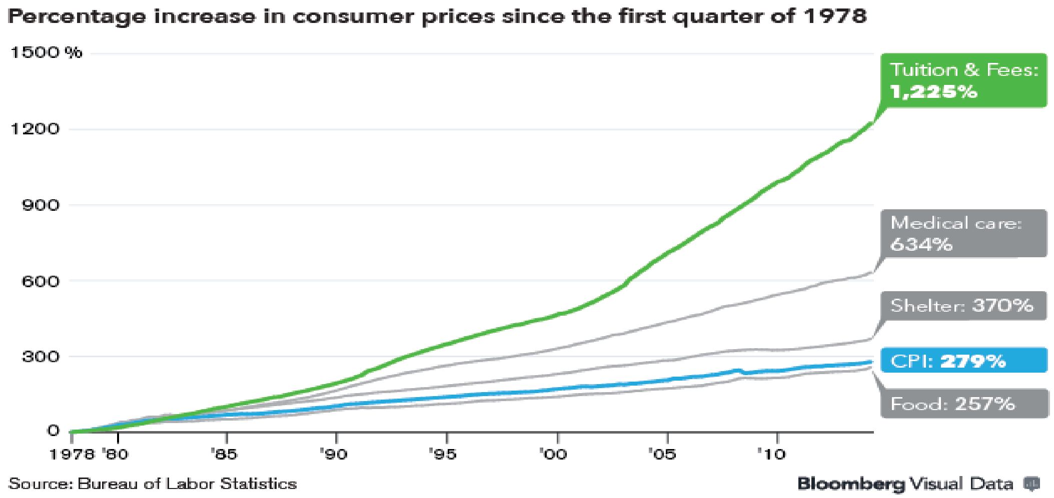
- Legislative actions and the capital market crisis of 2007-2009 destroyed the student loan market, culminating in the nationalizing of all federal loan programs in 2010.
- The private student loan marketplace has also been decimated.
  - Increased regulatory oversight has driven most financial intuitions from this market.
  - One lender, Sallie Mae, represents over half of the market, with only a handful of meaningful participants remaining.
  - These super "prime" loan programs generally require substantial incomes and credit scores averaging in the mid-to-high-700's.
- Most students lack the credit history to obtain private student loans without an independent adult co-signer.

Trends in the Cost of Education

- Over the last 40 years the cost of post-secondary education has risen at a pace that far exceeds inflation and all other categories of consumer spending.

- The price of higher education rose even more dramatically from the mid-2000's to present as a result of three things: 1) first the availability of private loans (2000-2007), 2) the flood of new Federal aid (2006-2010), and 3) the rising use of discounts and merit programs to lower prices for portions of the student body.

- The combined result have increased total student debt from approx. $350 billion in 2004 to $1.4 trillion today.



HEA Concepts Around Loan Limitations

- **Current HEA Proposal (the PROSPER ACT) contemplates less federal loan availability to parents and graduate students.**

Borrower Type	Current Law Loan Limits	PROSPER ACT Loan Limits
1st Year, Dependent	$5,500	$7,500
2nd Year, Dependent	$6,500	$8,500
3rd Year and Beyond, Dependent	$7,500	$9,500
Aggregate Limits, Dependent	$31,500	$39,000
Borrower Type	**Current Law Loan Limits**	**PROSPER Act Loan Limits**
1st year, Independent	$9,500	$11,500
2nd year, Independent	$10,500	$12,500
3rd Year and Beyond, Independent	$12,500	$14,500
Aggregate Limits, Independent	$57,500	$60,250
Borrower Type	**Current Law Loan Limits**	**PROSPER Act Loan Limits**
Graduate and Professional Annual	$20,500	$28,500
Graduate and Professional Aggregate	$138,500	$150,000
Graduate & Undergraduate Aggregate	$138,500	$150,000
Graduate and Professional PLUS Loans	Cost of attendance minus other aid	N/A --Grad PLUS is eliminated
Borrower Type	**Current Law Loan Limits**	**PROSPER Act Loan Limits**
Parents Annual Limit	Cost of attendance minus other aid	$12,500
Parents Aggregate Limit		$56,250

Let’s Review Federal Loan Default and Repayment Realities

CDR Comparisons by School Type

	2010 CDR	2011 CDR	2012 CDR	2013 CDR	2014 CDR
Public, 2-3 Yrs	16.7%	14.8%	13.0%	13.0%	13.5%
Public, 4+ Yrs	13.0%	12.9%	11.7%	11.3%	11.3%
Public, Total	13.0%	12.9%	11.7%	11.3%	11.3%
Non-Profit, 2-3 Yrs	22.6%	25.8%	23.7%	20.1%	17.6%
Non-Profit, 4+ Yrs	**8.5%**	**7.8%**	**7.0%**	**7.3%**	**8.2%**
Non-Profit, Total	8.6%	8.0%	7.2%	7.4%	8.2%
For-Profit, 2-3 Yrs	20.0%	18.8%	16.4%	15.4%	14.8%
For-Profit, 4+ Yrs	22.0%	18.7%	15.2%	14.0%	14.7%
For-Profit, Total	21.8%	18.7%	15.3%	14.1%	14.7%
All	14.4%	13.4%	11.7%	11.0%	11.2%
ABACC	**7.7%**	**6.7%**	**5.9%**	**6.2%**	**7.0%**
CCCU	7.3%	6.3%	5.5%	5.5%	6.1%
CCC	3.8%	4.1%	3.3%	3.0%	3.2%
TRACS	10.4%	10.8%	12.4%	12.8%	14.5%

Source: https://studentaid.ed.gov/sa/about/data-center/student/default

ABACC CDR Distribution

CDR Range	2010 CDR	2011 CDR	2012 CDR	2013 CDR	2014 CDR
			# of Schools		
0-2.5%	14	19	20	22	20
2.51-5%	18	27	37	31	23
5.01-10%	60	62	56	54	57
10.01-20%	34	27	18	28	29
20%+	5	2	7	1	7
Total	**131**	**137**	**138**	**136**	**136**
			% of Total		
0-2.5%	10.7%	13.9%	14.5%	16.2%	14.7%
2.51-5%	13.7%	19.7%	26.8%	22.8%	16.9%
5.01-10%	45.8%	45.3%	40.6%	39.7%	41.9%
10.01-20%	26.0%	19.7%	13.0%	20.6%	21.3%
20%+	3.8%	1.5%	5.1%	0.7%	5.1%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: https://studentaid.ed.gov/sa/about/data-center/student/default

CDR vs. Lifetime Default

- When discussing federal loan default risk, the most common reference is the 2-year or 3-year unit-based cohort default rate.
- However, other aggregated data published by ED at a sector level or by the Congressional Budget Office (CBO) at a funding source level, show that the ultimate dollar defaults are multiples of the CDR rates

2011 Cohort Year	2-Year Unit Default %	Lifetime Dollar Default Rate Budget	2-Yr to Lifetime Multiplier
2 Yr Non-Profit & Public	15.4%	33.8%	2.2 to 3.0
2 Yr Proprietary	16.7%	49.4%	
4 Yr Institutions	8.6%	25.4%	
Source: DoE, Default Rates for Cohort Years 2007-2011 (PDF)			

2010 Cohort Year	3-Year Unit Default %	Lifetime Dollar Default Rate Budget	3-Yr to Lifetime Multiplier
2 Yr Non-Profit & Public	21.5%	34.5%	1.6 to 2.1
2 Yr Proprietary	27.1%	50.0%	
4 Yr Institutions	12.8%	26.9%	
Source: DoE, Default Rates for Cohort Years 2007-2011 (PDF)			

Source http://www.ifap.ed.gov/eannouncements/060614DefaultRatesforCohortYears20072011.html

CBO Data – Post-Default Recovery

- In the mid-1990's, the federal government reported its difficulty in collecting on its student loan portfolio. At the time, it was facing high defaults and only about a 60% post-default recovery.

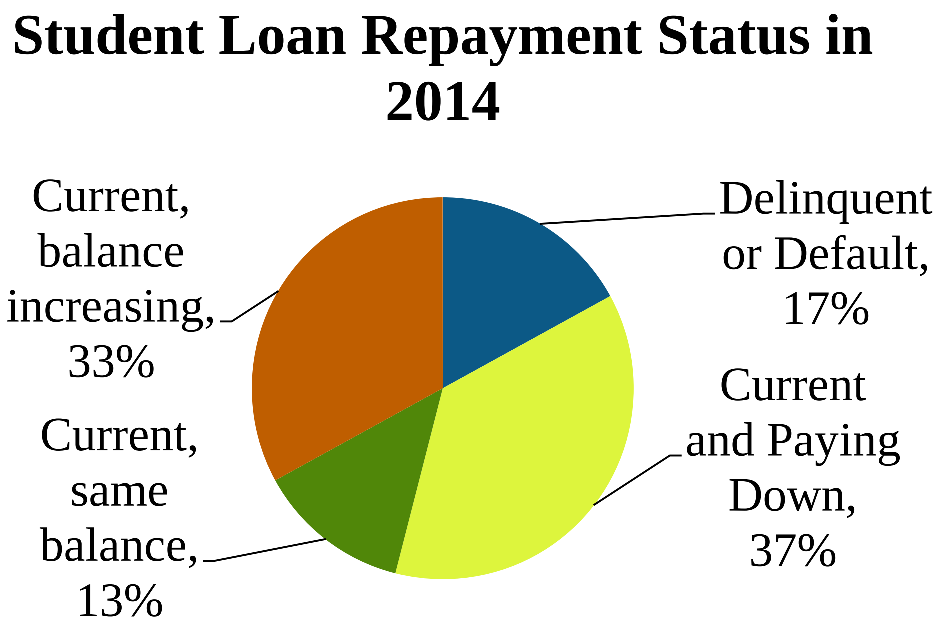
- Since 1996, the federal government introduced various programs to increase post default recovery on student loans:
  - Changing bankruptcy dischargeability of student loans;
  - Introduced Treasury Offset Program; and
  - Implemented administrative wage garnishment program.

- With the combined effects of these programs, the post-default recovery rate has come up to over 100% of defaulted principal balance for subsequent years. Also of note: only the federal government gets to add collections cost back to the amount owed on the loan.

- **This comparison is important as an independent path will not have some or all of the remedies that doubled the federal government's recovery.**

True Repayment Rate on All Federal Loans

- In response to the rising debt burden described earlier, the amount of entitlements for federal loans, which allows for reduced or zero payments, has skyrocketed.
- As a result, only about a third of borrowers are actively paying down their loans



Source: Page 27 of NY Fed Student Loan Borrowing and Repayment Trends, 2015

3-Year Repayment on Undergrad Federal Loans

All Schools	3 Year Repayment Rate (Scorecard)
Public, 2-3 Yrs	44.8%
Public, 4+ Yrs	49.1%
Public, Total	49.0%
Non-Profit, 2-3 Yrs	23.1%
Non-Profit, 4+ Yrs	**56.6%**
Non-Profit, Total	56.1%
For-Profit, 2-3 Yrs	31.5%
For-Profit, 4+ Yrs	26.2%
For-Profit, Total	26.9%
ABACC	**60.8%**
CCCU	62.4%
CCC	77.3%
TRACS	47.3%

ABACC Breakdown	3 Year Repayment Rate (Scorecard)
	# of Schools
80%+	14
70.1-80%	9
60.1-70%	36
50.1-60%	28
40.1-50%	17
40% or below	15
Total	**119**
	% of Total
80%+	11.8%
70.1-80%	7.6%
60.1-70%	30.3%
50.1-60%	23.5%
40.1-50%	14.3%
40% or below	12.6%
Total	**100.0%**

Source: https://collegescorecard.ed.gov/data/

Let’s Assess What a More Viable Future State of Student Finance Would Look Like and What First Steps Should Be

Future State of Student Finance – Integrated Stakeholders

For the future system to function effectively there needs to be an economically feasible model that mutually benefits all three stakeholders:

Student

- Students must repay the loan to minimize impact to future students and Institution.
- Loan interest rates will vary depending on the source of capital or potential program of study.

Institution / School

- Able to equip and influence students' behavior on repayment through the relationship established during the in-school period.
- May need to provide some level of guarantee and/or discount on the loans based on repayment rates and risk profile of student borrowers.

New Sources of Capital / Infrastructure

- New infrastructure to enhance future repayment may be necessary.
- Varied loan program terms depending on how well a source of capital is aligned with the mission of the Institution.
- Donations, endowments or other renewable sources will be necessary to replace needs-based grants that are not repaid (i.e. Pell and state grants).

First Steps in Assessing Student Finance Environment

- Determine how the institution's students are performing in the repayment of their federal loans.
- Understand student behavior and drivers / attributes for repayment and default.
- Assess whether existing student aid offerings are meeting all of the needs of both the school and the student:
  - Assessment of discounted aid sources;
  - Identification of existing sources that are at risk of going away or decreasing in the near term (e.g. Perkins, state grants, Grad Plus, Parent Plus);
  - Determination of whether other sources are currently needed.

Why Review Default & Repayment Data?

- HEA proposals and other regulatory views indicate schools will eventually be accountable for repayment rates.
- If no prior institutional loan programs exist, actual data on the successful repayment of your students' loans may be limited.
- Published CDR data may not correlate to actual default rates for the institution or the repayment rates for students.
- Sponsors, trustees, donors and/or investors will need historical data to support the viability of the transition towards independence.
- If the net yield on alternatives to Federal Aid are not adequate to cover the following: 1) loan losses, 2) administrative cost of the replacement solutions, and 3) the cost of capital, then net proceeds to the schools will likely be discounted versus the fully funded Title IV aid received today.
- Additional resources to promote financial literacy and biblical stewardship may be needed to counter the national headwinds on loan repayments.

How to Review Federal Default & Repayment Data?

- Annually ED publishes the over 200 page “Cohort Default Rate Guide.”
  - https://ifap.ed.gov/DefaultManagement/guide/CDRGuideMasterVersion.html
  - This document contains tons of reference information on default, including information on the following reports available with your schools data:
    - DRC015, DRC016, DELQ01, DER002, SCHPR1 and SCHDF2 (which are available under the “Reports” tab on the NSLDS Web site).

- Although all of the reports were designed for default management, versus repayment analysis, our team has determined that the data can be used to create many helpful views on repayment
  - Warning – the data in these files can be cumbersome as most of it is maintained at a loan level. Special care and attention is needed to roll the data up to the student/borrower level and to calculate repayment rates or default rates.

What Other Student Finance Questions Should be Asked?

- Are unfunded sources such as merits, grants and scholarships achieving the intended/desired outcomes for both students and schools? Below are the type of key questions that should be considered and analyzed:
  - Does the presence of a merit* increase the number of applicants that matriculate?
  - Does the presence of a merit* increase the quality of the students that matriculate?
  - Does the presence of a merit* increase the likelihood of positive academic outcomes of students while enrolled, as well as graduation rates?
  - Does the presence of a merit* correlate to better default and repayment rates of students after they leave the institution?

  *"Merit" here is meant to include all discounted aid sources, collectively: merits, scholarships and grants.

- Are new GAP funding sources such as risk-sharing, private or institutional loans, and/or Income Sharing Agreements (ISAs) needed?

- Are the institution's student aid offerings aligned with the organization's strategic and operational plans?

Sources for Tuition and Fees – All Three Are Needed

Primary Funding:

Merit*

Pell and State Grants

Direct Stafford/Perkins Loans

Military/Veterans

Institutional Need/Endowed Aid

PLUS (Parent and Grad)

Comprehensive GAP Funding

Discretionary Institutional Aid

*Based on policy or systemized rubric

Today's GAP Funding Options Needed

Some or all of the following products may be needed to ensure that all admitted students will be able to attend

1) Cash Payment Options

(Fully Funded During Enrollment Period)

Cash Payments from Students	Cash Payments from Family or Support System	In-School Payment Plans	Third-Party Payments (Corporate/Tuition Reimbursement)

2) Credit-Tested Loans

(Fully Funded by Third Parties / Highly Selective Underwriting)

Examples: Goal Structured Solutions – Ascent Tuition & Ascent Independent
Sallie Mae, Discover, College Ave, PNC, Wells Fargo

3) School-Sponsored Loans & ISAs

(Discounted Funding or Payments Over Time)

Private Loans with Risk Sharing	Private Loans funded and guaranteed by School but owned and managed by NFP entity	Institutional Loans	Income Sharing Agreements

4) Discretionary Institutional Aid (Grants and Scholarships)

(Unfunded)

These solutions should be used on an exception basis only with a structured approval process

What Factors Influence the Student Aid Funding Mix?

- No single solution works for all institutions and students.
- Design of student aid program will be heavily impacted by the following factors:
  - Enrollment capacity limitations;
  - Current socio-economical/demographic mix;
  - Desired or improved/changed enrollment mix;
  - Current cost of attendance;
  - Credit loads of students;
  - Current institutional grant/scholarship policy and related costs;
  - Fixed vs. variable cost of education services;
  - Growth plans of the institution; and
  - Price and aid programs offered by major competitors.

Path to Independence – Milestones and Metrics of Successful Examples

Path to Independence - Milestones

Shorter-Term
Develop a comprehensive student finance strategy designed to provide immediate economic benefit to the institution and its students. This will need to include steps to improve repayment rates. This will also likely include some form of school sponsored lending or ISA programs that can allow the path to independence to begin while also improving current financial viability. Examples could include:

- Replacement solutions for potential loss of State Grants or Perkins;
- Remove barriers to entry for students lacking funding; or
- Potential to replace some unfunded discounts with a loan.

Medium-Term
Begin to diversify away from dependence on federal and state aid as new sources of capital, infrastructure and successful student repayments coalesce to solidify the pathway.

Longer-Term
Complete the transition to total independence from federal and state aid using the bridge built during the prior two phases.

Successful Path to Independence Outcomes

- Financially strong and thriving Christian colleges and universities expanding their mission and the positive influence of the gospel.
- Successful students with quality outcomes in all areas, including loan repayment.
- A Christian higher education environment that is independently funded by sources other than federal and state agencies;
- Sustainable mission-centered infrastructure that can support all of the above goals; and
- A student finance system that is operationally self-sufficient without additional donor or school support.

HOPE International – A Christ-Centered Financing Parallel

HOPE's Challenges:

- Bring transformational Christ-centered financial services to some of the most difficult-to-serve geographies on the planet;
- Provide spiritual guidance and infrastructure to support lending and borrower loan repayments with no asset-backed collateral; and
- Raise capital to support their mission while remaining "Mission True"
  - ➢ This issue hit close to home for HOPE and its CEO Peter Greer, when a contingency of a potentially large donor requested the organization to "tone down its Christian mission." The result of their journey led them to study Christian organizations over the last several hundred years and the path to staying mission true (including some of the most famous universities that began with Christ at their core but lost their way, like Harvard and Yale).
  - ➢ The end result - a book called **Mission Drift** ***– The Unspoken Crisis Facing Leaders, Charities and Churches*** – A Christianity Today - 2015 Book Award Finalist.

HOPE's Success:

- 20 Years of helping spread the gospel through holistic solutions in over 16 countries;
- 950,000 current clients serviced with Christ-centered financial products;
- 98% 5-Year Loan Repayment Rate;
- Half of regions are operationally self-sufficient (meaning they no longer require guarantees or support from outside sources).

Summary - Action Steps / Levels of Engagement

Wait – Continue to monitor, but take no immediate action.

Learn – Gather information on your students repayment rates to better understand the level of risk your institution has relative to the external risk factors described in this presentation.

Analyze

1. Analyze repayment rates and begin to assess ways to positively influence student behavior.
2. Analyze all student aid sources (including federal/state aid, merits and GAP funding) to determine if enhancements or additional student finance solutions are needed.

Act

1. Implement new/enhanced student finance solutions that address immediate or near term needs of the students and/or Institutions. This can improve current financial viability of the institution and build key infrastructure that can be leveraged in the future.
2. Implement enhanced financial literacy and biblical stewardship programs (in-school) and enhanced student outreach strategies (post-separation) to positively impact repayment on all categories of loans.
3. Increase development efforts specifically aimed at religious liberty/mission risk.
4. Look for ways to strengthen the institution's cash flows and balance sheet.

Chart a Path to Independence – If your institution's metrics on key areas (completion rates, repayment rates, Title IV usage, endowment/development, financial strength, etc.) are exceptional, then setting a proactive course for independence like Grove City/Hillsdale did decades before might be possible today.

Appendix: A

Bio and Areas of Expertise

King Consulting Group – Experience and Reference

- Experience analyzing millions of federal and private student loan records for hundreds of thousands of students
- Experience building and managing loan programs through partnerships with schools, third-party servicers and sources of capital
- KCG leverages a team of consultants that has over 50 years of Higher Ed experience in a variety of Institutional Finance/Accounting and Student Finance roles
- Strong project leadership
- Eight years of experience with HOPE International, a global Christ-centered nonprofit focused on addressing both physical and spiritual poverty through microenterprise loans and development
- ABACC – Corporate sponsor
- More than a year-long student finance project with a large ABACC/CCCU Institution with over 10,000 students

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Don King is a Big-4 CPA that began his career in public accounting, where he worked primarily on Real Estate, Energy, and Higher Education clients. His King Consulting Group, LLC (KCG) leverages a team that has over 50 years of Higher Ed experience in a variety of Institutional Finance/Accounting and Student Finance roles. The practice focuses on helping Institutions with issues related to: Financial, Operational and Regulatory Advising; Assistance with Educational Mergers & Acquisitions (M&A) Transactions; Education GAP Funding Consulting; Education Loan Portfolio Advising; and other Finance Support Services, such as: Project/Change Management Support, Database and Reporting Projects, Treasury Operations, Cash Management and Forecasting, Credit Facility Restructurings, and Ad-Hoc Financial Modeling & Analysis.

Don previously served in a variety of roles in the post-secondary education industry, including: executive level finance positions focused on operational and financial oversight of multi-state and multi-national educational institutions, external auditor, and executive recruiter.

Don has over decade of experience in the Private Student Lending Industry with particular expertise in building and managing loan programs through partnerships with schools, third-party servicers and sources of capital. His team also has experience analyzing millions of federal and private student loan records for hundreds of thousands of students.

Don serves on the Regional Board of HOPE International, a global Christ-centered nonprofit focused on addressing both physical and spiritual poverty through microenterprise loans and development.

Don holds a Bachelor's degree in Business Administration, with a concentration in Accounting, Summa Cum Laude, from the College of William & Mary.