

WALKER LOOKS TO PRIVATE SECTOR AS DEMS PUSH FOR STATE AUTHORITY TO ADDRESS STUDENT LOAN DEBT

By Polo Rocha
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UW Credit Union refinanced 341 loans in the weeks after Gov. Scott Walker encouraged Wisconsinites to use a private option to help lessen their payments.

But critics say that's a tiny part of the more than 800,000 Wisconsin residents now carrying student loan debt.

Democrats have been hammering Walker on his refusal to establish a state refinancing authority, which would use state bonds to refinance people's student loan debt at lower interest rates. That would save some borrowers thousands of dollars over the years, which supporters say would get reinvested in the economy.

Instead, Walker's solution relies on the private sector. In short, he expanded the eligibility of who could be a member of UWCU and therefore refinance with the credit union. He also launched a website that includes resources for borrowers and information on other private institutions that refinance. At his State of the State address last week, Walker dismissed the Dems' authority as "new government bureaucracy" and laid out a proposed tuition cut for in-state UW System students as the next step in his college affordability agenda.

Some liberal-leaning researchers are also skeptical of the state refinancing programs Dems tout as examples, pointing out that people who are struggling the most and who have bad credit are often left out. And GOP Rep. Dave Murphy, who chairs the Assembly's higher education committee, says the numbers from UWCU are encouraging so far and will grow over time.

"A brand new loan program that goes into place, there's some publicity out there for it, but it's not like everybody is totally aware that this is something that's available," the Greenville Republican said. "As time goes by, it'll get more and more notoriety and people would know about it."

Critics say Walker hasn't offered a real solution beyond telling people to "call a bank." The UWCU numbers, they say, are yet another sign the current system isn't working.

"If the banks and the credit unions were going to solve this problem, it would've been solved," said Scot Ross, the executive director of the liberal One Wisconsin Now.

The UWCU numbers offer an early and incomplete look at the effectiveness of Walker's efforts. But the figures are notable because Walker's administration approved a change expanding who could be a member of the credit union and he made his announcement at the UWCU headquarters.

The credit union's figures, for example, wouldn't count those who chose to refinance their student loans with other private institutions, such as those on the state's lookforwardwi.gov website, launched with the UWCU announcement.

A good chunk of the state's student loan borrowers might also not want to refinance. And experts say they shouldn't if they have low enough interest rates or if they don't want to lose the protections the feds offer. States can, though, decide to keep some of those protections.

In all, UWCU spokeswoman Lisa Girdharry said in an email, the credit union refinanced 341 loans totaling \$10.1 million between Sept. 8, when Walker's administration signed off on the eligibility expansion, and Dec. 31. That was a 79 percent jump, or nearly double, over the same period in 2015.

Girdharry didn't respond to requests for clarification on whether those loans were exclusively student loans or whether they included other types such as auto loans.

Debate part of national conversation as student debt rises to record highs

At the federal level, U.S. Sens. Elizabeth Warren and Tammy Baldwin also have pushed a bill to let people refinance the loans they took out with the federal government.

A White House report from 2014 showed 812,000 Wisconsinites had about \$18.2 billion in outstanding federal loans. Nationally, student loan debt is now above \$1.3 trillion, a figure that also counts private sector loans and that's growing and growing as college tuition continues to rise.

One debtor is 50-year-old Madison resident Shawna Reiter, who has been unable to pay the \$200,000 she has in student loan debt. That includes the \$40,000 parent loan she took out to help two of her kids pay for college.

When the Chippewa Falls nursing home where she worked closed, Reiter went back to school, earning a bachelor's degree from UW-Stout in 2012 in human development. She largely paid for the degree by taking out loans, as her job at a group home barely covered her living expenses. But she struggled to find a good job after graduating.

"I couldn't get a decent-paying job with a bachelor's anywhere, so I thought, 'Well, if I get a master's, things would get better,'" she said.

That social work master's degree from UW-Madison, which she finished in May, tacked \$50,000 on to her debt.

Reiter is currently unemployed and looking for jobs as a social worker, particularly in government so she can take advantage of the feds' loan forgiveness program. But most jobs she's found, she said, pay \$9 an hour. She said she "can't live on that," pay off her loans and save for retirement at the same time.

"I'm applying for a higher level job just so I can make a living and start paying my debt back," Reiter said. "I want to. I want to pay my debt back."

More states setting up refinancing programs, though some question effectiveness

Those kinds of stories have pushed some states such as Rhode Island to take action and try to "fix our broken student loan system," said Rohit Chopra, the former student loan ombudsman at the Consumer Financial Protection Bureau.

The list of states with refinancing programs is now at 11, according to Debra Chromy, the president of the Education Finance Council, which represents the nonprofits and state agencies that issue student loans. Those states are Alaska, Connecticut, Iowa, Kentucky, Louisiana, Massachusetts, Minnesota, New Hampshire, New Jersey, Rhode Island and South Carolina.

Many of those programs are in their early stages, which researchers say makes it hard to evaluate how well they're working. They also vary wildly in how they operate and in their eligibility requirements for borrowers.

They generally require borrowers to have good credit or require a cosigner if they don't.

Rhode Island doesn't let people refinance their loans if they have bad credit or are unemployed unless they have a cosigner, said Charles Kelley, the executive director of the Rhode Island Student Loan Authority.

The state's program, which started in 2014, has so far helped nearly 800 borrowers refinance about \$30 million in loans. Kelley said the program also hasn't seen a single borrower default since it started.

Minnesota, meanwhile, offers refinancing for residents if they earned a degree, have a job, and if they or their co-signer have a FICO score of 720, which is considered to be fairly high.

That has some researchers concerned the people who need the most help on their student loans aren't benefiting.

"This has always struck me as sort of a strange issue for Democrats to champion," said Matt Chingos, a senior fellow at the liberal-leaning Urban Institute and the co-author of "Game of Loans: The Rhetoric and Reality of Student Debt."

The state, he said, should invest in reaching out to those who are struggling and create a public awareness campaign.

The private sector also leaves some people out.

UWCU President and CEO Paul Kundert acknowledged that when talking to reporters at the September announcement, saying it's "very difficult to find a lender" to take on someone's debt if they have bad credit.

Lon Roberts, the secretary of the state's Department of Financial Institutions, also told reporters the agency would ask institutions to "try to offer these products to as many consumers as you possibly can."

As the institutions are private companies, DFI does not track who's applying for student loan refinancing or other figures like who's getting denied or what their average credit scores are, department spokesman George Althoff said.

Girdharry, the UWCU spokeswoman, didn't respond to follow-up questions asking whether the credit union could provide those figures.

Tom Evenson, a Walker spokesman, pointed out Walker has given the highest levels of need-based financial aid in the state's history. He also pointed to Minnesota's eligibility requirement of a 720 FICO score.

"What the supporters of government-run refinancing don't tell you is that not every borrower will qualify for refinancing under their plan. ... Wisconsin credit unions and banks offer refinancing at rates that are the same or better than what is offered by many government-supported programs in other states," he said.

Wisconsin's authority would decide how strict its standards are

Under the Democrats' "Higher Ed, Lower Debt" bill, which has little chance of passing, the Wisconsin authority's board would decide on eligibility standards and whether it should implement at least some of the federal protections like income-based repayment or loan forgiveness programs. The bill was co-authored by Sen. Dave Hansen, D-Green Bay, and Rep. Cory Mason, D-Racine.

Hansen said he wants to leave it up to the authority to "see how they want to structure the whole thing."

The authority, then, could decide to help a broader pool of Wisconsinites, though that comes with its own risks.

"Unless the state is willing to be a backstop for those that are really struggling, then you have to make it work from a financial perspective," said Chromy, the Education Finance Council president.

Mason, meanwhile, said the authority would have to choose a "fiscally responsible model." He compared the Dems' plan to the Wisconsin Housing and Economic Development Authority, which offers loans for families to buy homes and also gives loans to small businesses.

WHEDA, he said, wouldn't give out a loan to a business that "doesn't have a business plan or a viable way of succeeding."

"We're not saying, 'Let's just take billions of dollars in student debt and refinance it and hope for the best,'" Mason said.

Murphy, the Republican lawmaker, worries the authority would be "burdening the taxpayers with a bunch of big debt."

He acknowledged Walker's plan leaves some people unable to refinance because institutions like UWCU "would be smart enough that they don't make a bunch of bad loans." But he said the Dem plan "fixes nothing."

"You get into a Catch-22. If it helps those people, it's gonna hurt you and me and the taxpayers in the state of Wisconsin," he said. "Because those loans are at a high interest rate for a reason, and the reason is that their credit just isn't good."