



State of Wisconsin
Department of Financial Institutions

Scott Walker, **Governor**

Lon E. Roberts, **Secretary**

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**DFI Secretary: New bureaucracy
not the answer to student debt refinancing**

By Lon E. Roberts
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Governor Scott Walker has made it a priority to take actions to control the cost of higher education. He froze tuition for four consecutive years at all UW System schools, resulting in an average savings of \$6,311 per student over that time. He has increased grants to technical colleges, increased accessibility to internship programs for college students, and backed creation of a scholarship program for high school students who lead their classes in technical education courses. And in his recently announced budget, the Governor wants to cut tuition for all UW System resident undergraduates by 5 percent, saving an average student \$360 per year.

The Governor also approved the creation of a college affordability/student debt specialist to be housed in the Office of Financial Literacy at the Department of Financial Institutions. As part of this effort, DFI last fall unveiled a new website, www.lookforwardwi.gov, to provide resources to students and parents who are seeking information about student debt and ways to make college more affordable.

There is no denying that this is a hot topic. Total student debt in the United States now stands at about \$1.3 trillion. The vast majority – about 81 percent – is held by the U.S. Department of Education and other federal agencies. The remaining 19 percent is held by non-federal financial services providers such as banks, credit unions and other entities.

For a variety of reasons, in recent decades more students have had to resort to student loans to pay for their education. Nationally, 68 percent of college graduates in 2015 had student debt. The average debt load was \$30,100, up 4 percent from 2014 (Wisconsin graduates averaged \$29,460).

This rise in student debt has caused some people to adopt a “sky is falling” mentality that leads them to the conclusion there is only one possible remedy to the problem: More government. Here in Wisconsin, some people are insisting that state intervention is the only panacea that will address student debt. This proposal is very costly – and unnecessary.

The proposal would require Wisconsin to establish a new state authority to offer refinancing opportunities to student borrowers. This proposal would require building a significant bureaucracy and staffing it with lending experts and legal and investment advisory personnel to underwrite student loans and access securities markets to sell bonds to fund the program. This is a huge new government undertaking with many unknowns and risks.

Supporters of this concept point to a handful of other states – including Minnesota – that offer state-run student debt refinancing programs. What those supporters do not tell you is that not every student borrower automatically qualifies for refinancing. The borrowers must meet certain credit standards in order to qualify because funding for the program comes from private-sector investors who are seeking a return on their investment.

For example, Minnesota requires a FICO score of at least 720 and a debt-to-income ratio of no more than 45 percent for a borrower to qualify for refinancing. These credit standards are more stringent than what you would find at some private-sector financial institutions.

Instead of creating a new and expensive layer of state government, Wisconsin would be better served by leaving this matter in the hands of existing programs and our private-sector institutions, both of which have the resources and well-established expertise to address it.

For example, the federal government currently offers at least five types of student loan repayment plans and at least nine student loan forgiveness programs. More information about these plans can be found on the Look Forward website (<http://lookforwardwi.gov/resources/>).

In addition, a list of Wisconsin credit unions and banks that may offer refinancing options – some at terms more competitive than those offered by state-run refinancing agencies – can also be found on the Look Forward website (<http://lookforwardwi.gov/wisconsin-loan-providers/>).

Lon E. Roberts is Secretary of the Department of Financial Institutions (DFI). Before joining DFI, he spent more than 40 years at the Ruder Ware law firm in Wausau.