Performance Audit • Report No. 21-01 November 2021

Georgia Department of Audits and Accounts
Performance Audit Division

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Why we did this review

Since its inception in fiscal year 2012, the Student Access Loan (SAL) has provided approximately $266 million in loans to nearly 36,000 students. SAL receives $26 million in lottery proceeds each year to assist borrowers with postsecondary costs.

Given the national attention given to growing student debt, we conducted this performance audit to examine SAL's utilization and programmatic controls. In addition, we determined SAL's reasonableness for students with financial needs. We also reviewed the extent to which participants default on their loan.

About the Student Access Loan Program

SAL was established in the 2012 Appropriations Bill to provide a needs-based, 1% loan to assist postsecondary students with the cost of education and completing their credentials in a timely manner. SAL was also intended to encourage work in public service.

The Georgia Student Finance Authority oversees the SAL program. SAL is primarily funded by state appropriations, though additional loans are distributed based on borrower principal repayments.

In fiscal year 2021, approximately 5,600 students received nearly $28 million in loans across 78 institutions.

Student Access Loan Program

Operating a loan program requires GSFA to balance need and ability to repay

What we found

Georgia's Student Access Loan (SAL) is a "need-based, low interest" loan that serves as a payer of last resort for borrowers who need assistance with postsecondary costs. The Georgia Student Finance Authority (GSFA) has designed the program to ensure access to certain populations, which has also decreased the likelihood that loans will be repaid. To formalize SAL's intent and priorities (which will impact program design), the General Assembly could codify the program in statute. Alternatively, GSFA could modify its regulations with the General Assembly's input.

Georgia's loan for need-based aid is unique among states.

Georgia's need-based aid is provided primarily through SAL; the state's other program that considers financial need also includes merit-based components and is significantly smaller. Only six other states offer loans to undergraduate students, and most invest more state funds in their need-based grant or scholarship program.

Through its merit-based HOPE and Zell Miller programs, Georgia awards more grant dollars per undergraduate student than any other state in the country. However, Georgia devotes a smaller proportion of its state assistance to need-based aid (i.e., no merit components) compared to other southeastern states.

SAL assists postsecondary students with financial need, though its design could be more targeted.

While targeting low-income students is not an explicit objective for SAL, GSFA does not require applicants to submit to a credit check or include a cosigner, which increases access among those with limited resources. As a result, approximately 75% of SAL borrowers are also eligible for the federal Pell Grant, which reflects "exceptional financial need."

Research indicates that states should also focus their financial assistance on students who—without the additional support—would not enroll or complete their education. In this regard, SAL borrowers were more likely to persist to the next academic year and obtain an academic award compared to those who applied but did not receive the loan in the same year.

GSFA has also incorporated opportunities to remove borrowers' debt; however, both programs are under-utilized due to limited eligibility criteria. In particular, full loan discharge is available only to borrowers who attend technical colleges, and it requires a 3.5 GPA at graduation (which is higher than standards for HOPE). Similarly, year-for-year service cancellation based on public service is limited to those with two- or four-year degrees; additionally, there is evidence many borrowers may not be aware of the option.

Current default rates limit SAL's success as a loan program that requires repayment.

In operating a loan program, Georgia requires borrowers to repay what they received and imposes consequences when monthly payments are not timely. However, efforts to ensure access to those who could not obtain a loan in the private sector has increased the likelihood of default and limited the assurance that the program will successfully recover the funds and become less reliant on state appropriations.

Approximately 31% of SAL borrowers default on their loans within three years of entering repayment—a rate more than three times higher than that of federal loan participants. Borrowers were more likely to default if they were enrolled in a technical college (vs. a four-year institution), were eligible for the federal Pell Grant, did not receive HOPE or Zell Miller aid (with the exception of the HOPE Grant), or did not earn a postsecondary credential prior to repayment. We also found that on average defaulted borrowers earned approximately 40% less than those who remained in good standing.

In addition to borrower characteristics, current repayment terms may be overly burdensome and contribute to borrowers defaulting. SAL borrowers must pay at least $50 a month toward their loan regardless of their overall debt obligation. As a result, most borrowers must pay more than they otherwise would under standard amortization. This appears to increase the risk of default among TCSG borrowers (who are also more likely to be impacted by the minimum payment requirement). While the federal loan program also has a similar minimum payment, unlike SAL, federal borrowers may be eligible to adjust payments based on their income.

We also identified improvements GSFA could make to increase the likelihood that borrowers make their monthly payments. These include promoting automatic payments that require no monthly borrower action, incorporating text messaging in borrower communication plans, and including more comprehensive information in correspondences to borrowers.

What we recommend

The General Assembly should establish SAL's intent and define the program's goals and priorities, which GSFA must consider in addressing the report recommendations that would impact borrowers' access or GSFA's collections. We also recommend various changes to the program's regulations that in particular may assist with repayment. For example, we recommend GSFA modify its repayment terms and incorporate additional practices to further enable borrowers to make their monthly payments and avoid default.

See Appendix A for a detailed listing of recommendations.

Agency Response: *GSFA generally agreed with our recommendations. Specific responses are included at the end of each relevant finding.*

Report Revision*: In January 2022, minor revisions were made to correct demographic information in Exhibit 15. These revisions do not change the report's findings, conclusions, or recommendations.*

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Purpose of the Audit

This report examines the Student Access Loan (SAL) Program. Specifically, the audit set out to determine the following:

1. Who utilizes SAL and how has that changed over time?
2. Is SAL a reasonable program to assist postsecondary students with financial needs?
3. Are controls over the SAL program sufficient to ensure that students who obtain loans meet necessary requirements?
4. To what extent do SAL participants default on their loan payments?

A description of the objectives, scope, and methodology used in this review is included in Appendix B. A draft of the report was provided to the Georgia Student Finance Authority for its review, and pertinent responses were incorporated into the report.

Background

The Student Access Loan Program

Since fiscal year 2012, Georgia's Student Access Loan (SAL) has provided "need-based, low interest loans" to assist postsecondary students with the cost of their education (which, as shown in the text box has increased over time). SAL's purpose—as outlined in its appropriation—is to assist with college affordability, encourage timely achievement of postsecondary credentials, and encourage public service work.

The SAL Program's design—including maximum loan amounts, interest rates, and repayment terms—is outlined in its regulations. As shown in **Exhibit 1**, these regulations have changed throughout the years, though most significantly between fiscal years 2012 and 2015. For example, borrowers were required to pay a minimum of $15 per month while in repayment from fiscal years 2013 to 2014, whereas the minimum has been $50 per month since fiscal year 2015.

Postsecondary Education Costs Have Significantly Increased

Federal grants, scholarships, and loans are an increasingly important source of aid for most postsecondary students. Over the past 20 years, average annual costs of education among all institutions increased by approximately 71%, requiring a larger percentage of students to use loans to complete their degree programs.

Year	Average Cost of Attendance[1]	Percent of Graduates with Student Loans	Average Student Loan Balance at Graduation
1995	$14,426[2]	55%	$20,760[2]
2018	$24,623	69%	$29,200

[1] Among all public and private two-year and four-year institutions.

[2] In 2018 dollars.

Source: United States Department of Education

Exhibit 1
SAL's Regulations Have Remained Mostly Unchanged Since Fiscal Year 2016

	FY12	FY13 - FY14	FY15	FY16 - FY21
Maximum Annual Loan Amount	$10,000			TCSG: $3,000 USG: $8,000
Maximum Total Loan Amount	$40,000			TCSG: $12,000 USG: $36,000
In-School Payment Amount	Accrued Interest	Minimum $15 per year for each loan	$10 per month for each loan	
Grace Period[1]	6 months			
Minimum Repayment Amount	$50	$15	$50	
Maximum Repayment Term	10 years			15 years
Repayment Interest Rate	1%	8% unless graduated on-time (1%) or graduated within one year of expected date (6%)	1%	
Default Interest Rate	WSJ Prime Rate[2]	8%	5%	

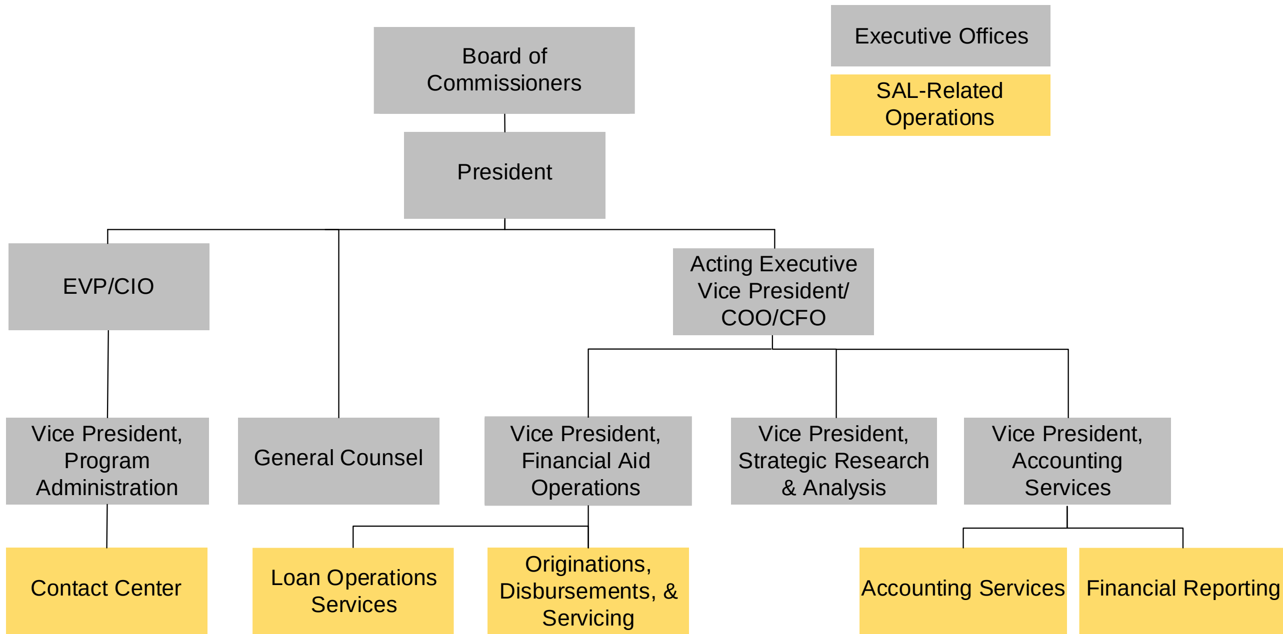
[1] The period following the borrower's graduation (or separation) from the institution for which they obtained the loan. Borrowers are not required to begin repayment until the grace period is over.
[2] *The Wall Street Journal* (WSJ) Prime Rate is the base rate reported by at least 70% of the nation's largest banks.
Source: GSFA

SAL Administration

SAL is administered by the Georgia Student Finance Authority (GSFA), which is statutorily authorized to improve higher educational opportunities by providing educational scholarship, grant, and loan assistance to Georgians (O.C.G.A. § 20-3-310). GSFA administers and disburses SAL funds (as well as those for other state loan programs) and communicates with institutions and borrowers.

GSFA is governed by a Board of Commissioners that also oversees the Georgia Student Finance Commission (GSFC), the state agency that administers state- and lottery-funded grant and scholarship programs such as the HOPE Scholarship. Both GSFA and GSFC have their own charters but are administratively attached and share staff who may support SAL and the HOPE programs. As shown in **Exhibit 2**, the executive of GSFC is the president, and several vice presidents oversee much of the commission's staffing and day-to-day operations.

Exhibit 2
Several GSFA Departments are Responsible for Administering SAL (FY 2021)



Source: GSFA

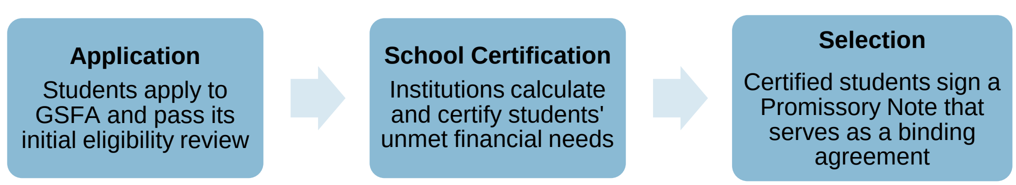
SAL Process

There are three main phases of the SAL program: application and selection, disbursement and reconciliation, and repayment. Each phase is described below.

Application & Selection

As shown in **Exhibit 3**, the application and selection processes are multi-step and generally completed by students, institutions, and GSFA prior to the start of the academic year. However, since the application remains open until SAL funds are exhausted, these processes may also occur during the school term.

Exhibit 3
GSFA's Selection of SAL Recipients is a Multi-step Process



Source: Agency documents

SAL Application

Undergraduate[1] students attending institutions within the University System of Georgia (USG) or Technical College System of Georgia (TCSG), as well as private institutions within Georgia, can apply for a SAL. GSFA verifies students' eligibility through its online application system. Students meeting initial eligibility criteria (per SAL's regulations) are U.S. citizens, Georgia residents, do not owe money to federal or state programs, and have not defaulted on any loans.

Students apply for SAL annually through GSFA's website (www.gafutures.org). The application includes an entrance counseling section designed to educate students on the risks of borrowing, projected monthly and total loan repayments based on the student's requested loan amount, and repayment terms and conditions. Students must specify whether they want their loan for the full academic year or for specific semesters or quarters, as well as their desired award amount. Students must also complete their Free Application for Federal Student Aid[2] (FAFSA).

The SAL Program operates a rolling application that selects applicants daily. In its daily selections, GSFA prioritizes HOPE and Zell Miller recipients and/or prior, nondelinquent SAL recipients. GSFA then processes the application on a first-come, first-served basis. The application typically opens each June or July for the upcoming academic year. While the application could close if GSFA projects it will exhaust funds, this has not happened. As a result, the application has remained open until the middle of the spring semester, giving enough time for anyone who wishes to apply.

GSFA notifies selected students via email and sends applications to the identified school to begin the certification process.

SAL School Certification

Once postsecondary institutions receive students' applications from GSFA, they initiate the certification process through GSFA's online invoicing system. Schools use their internal data to verify the initial eligibility criteria, as well as whether students demonstrate financial need (see text box) and comply with any institutional policies. In addition, institutions must certify that borrowers are enrolled at least half-time (at least six semester or quarter hours) and that they have maintained Satisfactory Academic Progress[3] as defined by the respective institution.

While the number of institutions participating in the SAL program varies annually, in fiscal year 2021 there were 78 institutions—25 USG, 21 TCSG, 28 private nonprofit, and 4 private for-profit institutions (see Appendix C). Institutions must sign an agreement to participate in the state's scholarship, grant, and loan programs (which includes SAL) and adhere to the respective program's regulations. For SAL, this includes maintaining a borrower cohort default rate[4] lower than the benchmarks GSFA sets for each institution.

[1] Eligible four-year programs include undergraduate Associate, Baccalaureate, or First Professional degree programs, while eligible TCSG programs include Certificate, Diploma, or Associate Degree programs.

[2] The FAFSA is a federal online application that students fill out before each term. Most institutions use the FASFA to estimate the unmet need a student will have to attend their respective institution.

[3] Satisfactory Academic Progress is generally based on a minimum grade-point average and time-to-graduation calculation.

[4] Cohort default rate is the percentage of borrowers to enter repayment during the cohort fiscal year and the number who default within that fiscal year and two subsequent years.

Estimating Unmet Need

To verify financial need, institutions use internal data to estimate the student's cost of attendance (COA), which includes tuition, fees, and costs for books, room and board, and transportation. The institution uses the student's FAFSA to determine the estimated family contribution (EFC), which is calculated using a family's income (taxed and untaxed), assets, benefits (i.e., unemployment), family size, and number of family members who will attend a postsecondary institution during the year. Finally, because SAL is a loan of last resort, institutions must verify that the student has exhausted all additional aid opportunities, which include federal or state scholarships or grants, any institutional or private scholarships or grants, and veterans' educational benefits.[1] Additionally, applicants from four-year institutions must demonstrate they have exhausted federal loan opportunities. As shown below, the difference between the institution's estimated COA and a student's EFC, in addition to any other financial aid, becomes the maximum unmet need to which SAL can be applied.

COA – EFC – Additional Aid = Unmet Need

[1] This requirement does not apply to federal or institutional work-study awards, private loans, or federal Parent PLUS loans.

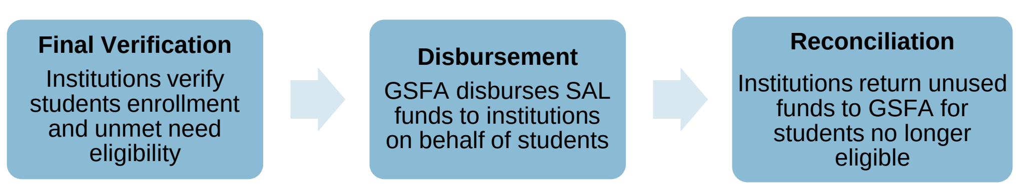
Recipient Selection

Once their respective institution certifies their eligibility and financial need, students receive an email from GSFA that instructs them to complete their Promissory Note and other supporting documentation, which is required prior to being approved for the loan. The Promissory Note acts as the binding loan contract between the borrower and GSFA; after a student signs it and receives the loan, they are legally bound to the terms of the contract (which includes loan amount to be repaid, fees and interest, repayment period, service cancellation and discharge opportunities, and default repercussions). If a prospective borrower does not sign the Promissory Note, GSFA returns the unclaimed funds to the pool of SAL funds available to new applicants, or they can be carried over to the following fiscal year.

Disbursement & Reconciliation

The disbursement and reconciliation processes (see **Exhibit 4**) occur after the school term begins and are completed by the institutions certifying and receiving SAL funds on behalf of the selected students.

Exhibit 4
SAL's Disbursement and Reconciliation are Completed by Institutions After the School Term Begins



Source: Agency documents

When the relevant academic term begins, institutions complete a final check of the loan recipients' enrollment and financial need. Verification of at least half-time enrollment typically occurs after the period in which students can add or drop courses without penalty. Institutions may also adjust a student's unmet need amount (and the loan amount) if changes occur to their financial aid package. This may result in some students no longer qualifying for a SAL. GSFA also has the discretion to honor requests for increased loan amounts based on this process.

GSFA disburses loans to the institutions on the requested disbursement date after eligibility is confirmed and need amount is finalized. This occurs once per term for each SAL recipient. With the first disbursement, GSFA deducts an origination fee from each loan—either $50 or 5% of the total loan amount (whichever is lower). Institutions will first apply the loan to any outstanding costs that remain on the student's account (e.g., tuition, fees, on-campus housing); if none remain, the institution will send the funds to the student.

If a student withdraws from a class or institution following disbursement, the institution must return funds to GSFA within 30 days of any adjustments. However, students are responsible for the loan once the drop/add period has ended and any withdrawal is recorded as part of their record. In addition, institutions must complete and certify a Borrower-by-Borrower Fiscal Year End Reconciliation with GSFA by July 15 of each year and then return any unused funds by August 15. GSFA prohibits institutions from receiving new SAL or other state program funds for the fall term until the prior year's reconciliation process is complete.

Repayment

While borrowers are enrolled in school, they must make $10 monthly Keep In Touch (KIT) payments starting 60 days after their first loan disbursement.[5] The payments are intended to cover the loan's accruing interest as well as a small portion of the principal. GSFA considers borrowers delinquent if KIT payments are not made within 60 days; this status prohibits borrowers from receiving any future State of Georgia student loan until they have paid the outstanding balance.

GSFA uses monthly National Student Clearinghouse data to identify whether borrowers remain at their institution. Those who are no longer enrolled—either because they graduated or dropped out—have a six-month grace period[6] before they enter repayment status and begin making monthly payments. Minimum monthly payment amounts are based on a borrower's principal loan amount, interest rate, and repayment period, but all borrowers must pay at least $50 each month.

While in repayment, GSFA allows borrowers to delay monthly payments if they apply for deferment or forbearance (see **Exhibit 5**). Borrowers applying for deferment must meet certain criteria and do not accrue interest during the months they are approved. By contrast, forbearance applications are not connected to stated criteria, and interest is accrued while they are not making monthly payments.

[5] KIT payments only apply to loans disbursed since fiscal year 2015.

[6] Though payments are not required, interest accrues during the six-month grace period.

Exhibit 5
SAL Borrowers May Qualify for Deferment or Apply for Forbearance

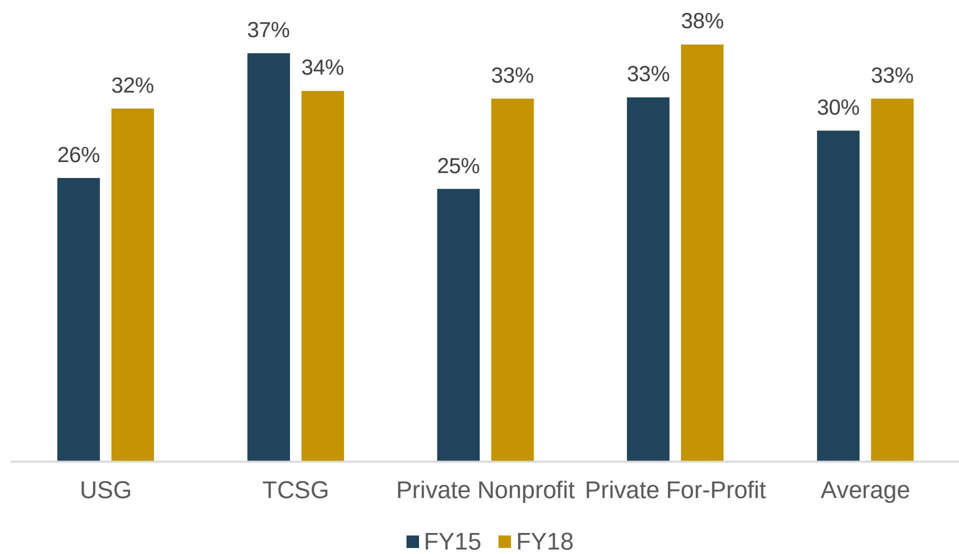
Deferment	Forbearance
Unemployment and Economic Hardship - maximum of 36 cumulative months	*Up to 24 cumulative months for:*
In School Status – unlimited with at least half-time enrollment	*Unemployment*
Active Duty in the U.S. Armed Forces - unlimited	*Economic Hardship*
	Physician-documented Prolonged Illness

Source: GSFA

GSFA also offers some borrowers service cancellation and loan discharge as options for debt relief. Service cancellation is available to borrowers with an associate or bachelor's degree and provides year-for-year cancellation on their loans if they work in qualifying public service positions. Under the loan discharge program, TCSG borrowers can cancel their entire loan if they graduate from the relevant program of study with a cumulative grade point average of at least 3.5.

When in repayment (as opposed to while enrolled in school), GSFA considers borrowers delinquent if they fail to pay their required amount within 30 calendar days of the due date. Borrowers who are more than 270 days delinquent are put into default status, which irrevocably converts the interest rate to 5% per year for the remainder of the loan. Among the SAL borrowers who entered repayment in 2018 (the most recent cohort reviewed), approximately 33% have defaulted in the first three years. With the exception of TCSG borrowers, default rates by institution type have generally increased over time, as shown in **Exhibit 6**.

Exhibit 6
SAL's Cohort Default Rates[1] Have Increased Over Time



[1] Percent of borrowers who have defaulted within three years of entering repayment.
Source: GSFA

If a borrower does not resolve their status with GSFA within 60 days of entering default, GSFA reports the borrower to a contracted collection agency.[7] A defaulted borrower may enter into a rehabilitation agreement plan to reform their default status by making nine qualifying monthly payments. Once a borrower has rehabilitated their loan, they are eligible for future forbearance and deferments; however, the interest rate remains at 5%.

Activity Data

As shown in **Exhibit 7**, approximately $265.8 million has been loaned to nearly 36,000 borrowers since SAL's inception. Over 40% of borrowers attended USG institutions, and they comprise approximately 45% of total loan amounts. Private nonprofit school students comprise approximately 30% of total borrowers but nearly 39% of the loan amounts. By contrast, approximately 27% of borrowers attended a TCSG institution, using only 12% of the loan amounts (due to lower allowed maximum amounts). Finally, less than 4% of borrowers attended private for-profit institutions.

Exhibit 7
Most SAL Borrowers Attend Four-Year Institutions

Institution Type	Number of Students[1]	Number of Loans	Loan Dollar Amount
USG	14,665	22,974	$118,461,366
Private Nonprofit	10,638	16,643	$104,198,511
TCSG	9,688	12,656	$31,893,166
Private For-Profit	1,337	1,733	$11,225,771
Total	**35,726**	**54,006**	**$265,778,814**

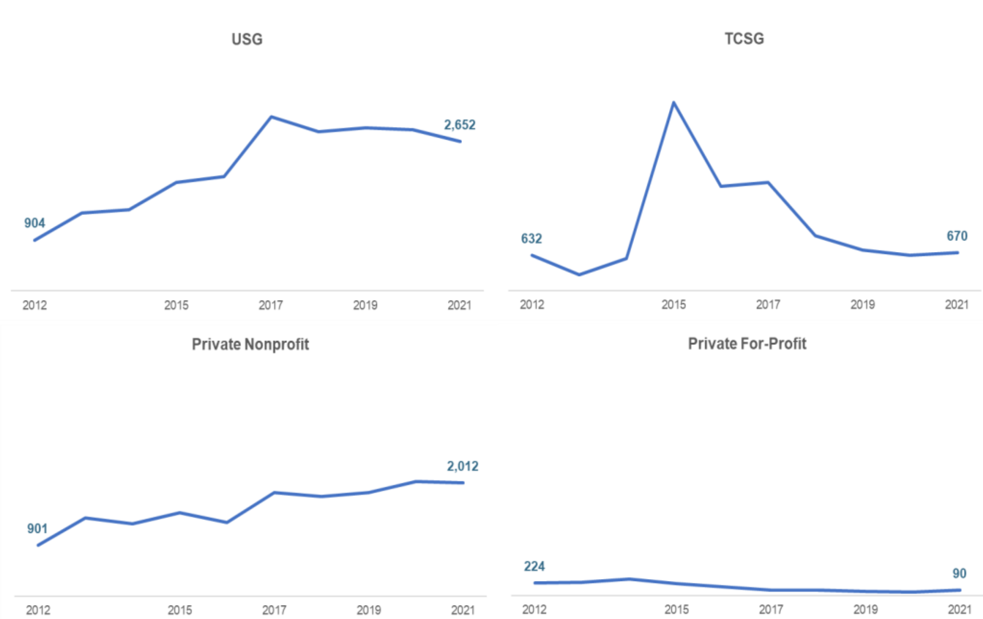
[1] Represents a distinct count of students for each institution type as well as the total number of borrowers. Students who received a loan while enrolled at TCSG and USG, for example, would be counted in each institution type but only once in the total.
Source: GSFA

As shown in **Exhibit 8**, the number of borrowers from USG and private institutions has increased since SAL's inception, while TCSG has fluctuated over time. By fiscal year 2021, USG participation had increased by nearly 200% since 2012, and private nonprofit borrowers increased by approximately 120%.

In fiscal year 2015, the General Assembly designated an additional $10 million for technical college borrowers, which increased the number of TCSG borrowers to their peak of approximately 3,500. The $10 million was absorbed into the funds for all student types in 2016, and TCSG participation decreased by approximately 44% to approximately 1,900 borrowers. By 2021, TCSG participation decreased to the same level as SAL's initial year. During this period, TCSG also experienced a decrease in its enrollment, as discussed on page 23.

[7] Under the current contract, the collections agency charges a 14% fee, which is taken out of the amount sent to GSFA. As such, the borrower does not bear the cost. This is subject to change as GSFA undergoes the request for proposal process to select a vendor..

Exhibit 8
The Number of SAL Borrowers Has Increased at Four-Year Institutions Since 2012



Source: GSFA Servicing

Financial Information

SAL's funding originates from two sources: state appropriations and SAL borrowers. As described below and shown in **Exhibit 9**, these sources support different aspects of SAL's operations.

In fiscal year 2021, the SAL Program received $26 million in lottery funds, compared to $821 for the HOPE and Zell Miller Scholarships. The HOPE, Zell Miller, and HOPE Career grants (primarily for TCSG students) received $66 million.

- **State Appropriations** – SAL is primarily funded through annual state appropriations using revenue from the Georgia Lottery. At its inception, SAL was appropriated $20 million, which increased to $26 million in fiscal year 2016. Appropriations are used solely to distribute loans and do not cover the Program's administrative expenses.

- **Borrower Principal Repayment** – As a loan program, SAL also generates cash flow from borrower repayments. Payments made by SAL borrowers on the principal balance of their loan are distributed out to new borrowers in subsequent fiscal years—in 2021, for example, approximately $7.1 million in principal repayments was collected for distribution in future years. It should be noted that this represents a nearly 60% increase from the prior year; GSFA staff attributed this to circumstances related to COVID-19—specifically the freezing of federal loan repayment requirements and stimulus payments that likely enabled more borrowers to make their monthly payments.

- **Interest and Fee Revenue** – Borrowers' interest payments—as well as fees collected—are used for SAL's administrative expenses, which are calculated based on staff time allocations. Approximately $3.0 million was spent on SAL administration in fiscal year 2021—an increase of approximately 23% since fiscal year 2017. Nearly 75% of administrative expenses are for personal services, which includes staff salary and benefits.

Exhibit 9
SAL Generates Enough Receipts to Disburse Loans in Excess of its Appropriations and Fund Administrative Expenses[1]

	2017	2018	2019	2020	2021
Programmatic					
Available for Loans	$34,141,284	$31,545,933	$32,048,725	$33,131,236	$33,797,033
State Appropriations[2]	$26,000,000	$26,000,000	$26,000,000	$26,000,000	$26,000,000
Carry over[3]	$8,141,284	$5,545,933	$6,048,725	$7,131,236	$7,797,033
Loans Distributed	$31,667,080	$27,998,621	$28,694,536	$29,894,707	$27,984,335
Net Difference	$2,474,204	$3,547,312	$3,354,189	$3,236,529	$5,812,698
Net Principal[4]	$3,071,729	$2,501,413	$3,777,047	$4,560,504	$7,120,337
Net Gain/Loss[5]	$5,545,933	$6,048,725	$7,131,236	$7,797,033	$12,933,035
Administrative					
Total Revenue	$2,240,509	$3,571,458	$3,525,917	$3,482,798	$3,602,363
Origination Fees	$343,121	$280,740	$269,253	$277,444	$269,806
Interest Income	$1,708,250	$3,055,259	$2,992,583	$2,972,693	$3,031,047
Late Fees	$189,138	$235,459	$264,081	$232,661	$301,510
Administrative Expenses	$2,447,698	$2,466,683	$2,974,570	$2,930,786	$3,014,830
Net Gain/Loss	-$207,189	$1,104,775	$551,347	$552,012	$587,533

[1] SAL is accounted for within GSFA's larger enterprise fund, which includes other programs. The net gains/losses reported in this table represent the increases or decreases of SAL's impact on the enterprise fund's net position.

[2] Includes funds from lottery proceeds only.

[3] Programmatic carry over includes unused appropriations and principal repayments from previous fiscal years.

[4] Represents the amount collected throughout the fiscal year and thus available for loan distribution in future years. Net principal deducts capitalized interest, which is interest accrued during non-payment that is incorporated into the principal amount owed. GSFA staff stated this is deducted because it is not actual revenue received. Because it may never be collected, it is deducted to avoid overstating the actual principal repayment amount.

[5] The 56% increase in the net gain for fiscal year 2021 is due to the lower amount of loans distributed and the increase in borrower payments—both of which GSFA attributes to the COVID-19 pandemic.

Source: GSFA

GSFA is permitted to retain unused funds—known as carry over—for future fiscal years rather than returning it to the Treasury. Based on the amount collected and demand for loans among qualified applicants, GSFA has carried over a portion of programmatic funding since fiscal year 2012 (see Appendix D for the financial table for all fiscal years), which has permitted GSFA to disburse more loans than it could have if SAL relied only on state appropriations. For example, in fiscal year 2021, GSFA disbursed nearly $2.0 million in additional loans using carry over from previous years.

In recent years, GSFA has also experienced a net gain on its administrative revenue (averaging approximately $560,000 per year between fiscal years 2019 and 2021). These funds are used to offset a portion of the administrative expenses that GSFA incurs operating its other programs.

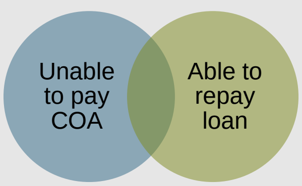
Findings and Recommendations

Finding 1: In operating the SAL program, GSFA has to balance the intention to assist borrowers in financial need with the loan's requirement for repayment.

SAL's program design increases access to funding for certain populations who need assistance with paying postsecondary costs. However, the design also creates an inherent risk that recipients will default, which triggers consequences for the borrower and can limit SAL's success as a self-sustaining loan program. Before GSFA implements this report's recommendations, the General Assembly should establish SAL's intent and priorities to ensure changes to the program are sufficiently aligned.

As noted by the National Commission on Financing 21st Century Higher Education[8], states are in a position to assist postsecondary students by reducing their net tuition. This public investment can "increase opportunity, create a vehicle to economic mobility, and enable a more meritocratic society." This is particularly important for academically prepared low-income students, who have a significantly lower chance of completing postsecondary credentials than equally prepared high-income students.

Operating a loan program requires GSFA to consider the applicants' short-term need for assistance with Cost of Attendance (COA) and the likelihood they will repay the loan. These characteristics do not always intersect.



As described in the finding on page 16, Georgia offers the largest amount of total aid per undergraduate student compared to other states. This is primarily accomplished through its HOPE and Zell Miller programs, which assist those who meet certain merit-based criteria. However, most states have also created grant programs to assist those with financial need, while Georgia's primary assistance is through a "need-based, low interest loan." The program has no formalized statutory objectives or language to drive its design (see the next finding); however the nature of the loan program is such that GSFA must identify people who need assistance in the short-term but are also likely to repay the loan in the future. Given that these are often mutually exclusive characteristics, certain aspects of the program may assist in achieving one goal but hinder success in another.

While targeting low-income students is not an explicit objective for SAL, staff indicated part of its design may provide access to funding among individuals that private lenders would likely not serve. This is primarily accomplished by not requiring applicants to submit to a credit check or include a cosigner, which most state loan programs[9] have incorporated to ensure loans are repaid. Additionally, SAL imposes a standard interest rate of 1%, which creates a lower total debt obligation than would be possible in the private sector.

Accepting borrowers based on need regardless of their (or their family's) credit score has increased access among those most likely to have limited resources, as discussed in the finding on page 22. On average, approximately 75% of loan recipients are also eligible for the federal Pell Grant, which indicates "exceptional financial need" based

[8] Created by the University of Virginia in 2014 to recommend policy and funding changes to help the nation attain a goal that 60% of the labor force has a postsecondary degree or certificate by 2025. The commission published 10 reports related to, among other topics, how to target public funding to increase graduation rates.

[9] Six other states (Alaska, Hawaii, Massachusetts, Minnesota, New Jersey, and Texas) offer loans to general postsecondary student populations based on an annual state survey. Staff from the four states that require cosigners or credit checks stated they generally target middle class students, which indicates a design that prioritizes borrowers' ability to pay over their financial need. Other loan programs that try to assist low-income students have not incorporated credit scores into their criteria.

on cost of attendance and estimated family contribution. However, as noted in the finding on page 34, Pell Grant eligible borrowers are less likely to repay their loans, and defaulting results in several consequences, including damaged credit history and an even higher debt obligation (see page 32).

Due to their higher default rates, the population SAL serves creates an inherent risk to SAL's ability to generate enough cash flow to meet the current need without state appropriations. While this is not necessarily a formalized objective of the program (and state appropriations have increased since SAL's inception), it is implied in its design as a loan program that imposes consequences when required payments are not made (versus a grant that would rely solely on state appropriation and require no repayment). As described on page 20, were SAL to lose its state appropriations, only about 25% of loans could be distributed given current principal repayments.

Additionally, while SAL provides necessary assistance to borrowers in the short-term, it can be detrimental to those who do not—or cannot—make their monthly payments and thus default on their loans (see finding on page 31). Lack of repayment may be due to a variety of reasons but, as described in the finding on page 34, may be attributed to borrowers' economic situation, which could be at risk particularly in the early years following graduation. However, the consequences of defaulting on the loan program—primarily a lower credit score—may leave borrowers worse off than if they had never obtained the loan (especially if it did not result in a postsecondary award).

In this report, we have recommended various changes to the program's procedures that may help the populations most likely to be impacted by the loan and assist with repayment. In considering future adjustments, however, GSFA must align its design with defined goals and priorities, which should be formalized by the General Assembly. For example, an increased focus on ensuring repayment would necessitate modifying borrower eligibility to prioritize ability to pay over financial need. Similarly, an increased focus on identifying borrowers likely to be most impacted by the loan would likely require program to create additional accommodations to assist borrowers with repayment and/or continue to have relatively high default rates.

RECOMMENDATION

1. The General Assembly—in consultation with GSFA—should establish SAL's intent and define the program's goals and priorities. GSFA should consider this as it addresses recommendations in this report or considers future changes to the program.

Agency Response: *"GSFA agrees that as a financial aid program, the primary purpose of the SAL program is to assist Georgia students in obtaining a postsecondary credential. This purpose drives the program. GSFA further agrees that the program is comprised of several major interacting components and is administratively intensive (loan programs more so than scholarship and grant programs). As a loan program, one of those components is the expectation that borrowers meet the obligations they incur as specified in the promissory note that they sign. However, providing assistance in achievement of a credential attainment remains the primary focus of the program."*

Recommendation: *"GSFA stands ready to provide the General Assembly with all data, impact analysis, and programmatic details it may request."*

Finding 2: SAL is not a statutorily codified program; as a result, GSFA is left to interpret legislative intent.

Unlike most state financial aid programs in Georgia, SAL is not codified as a program in statute. Rather, SAL was created through an appropriations bill, and the loan's requirements are subject only to GSFA's discretion. While this is permissible under the entity's general statutory authority, some requirements are not consistent with what is outlined as legislative intent in other loans' statutes.

According to GSFA staff, SAL was created in the 2012 Amended Appropriations Bill, which allocated $20 million in lottery funds to "implement a needs-based low-interest loan program to assist with the affordability of a college education." This coincided with legislation that reduced HOPE scholarship benefits for students who failed to meet Zell Miller Scholarship criteria (House Bill 326), and GSFA staff stated SAL was intended to assist with any financial gap between tuition and the decreased HOPE funding. While a loan intended to "cover the difference between the amount of tuition and the HOPE award" is mentioned in the House Bill 326, the program is not codified in statute.

As shown in **Exhibit 10**, SAL is one of only four state financial aid programs that are not codified in statute. The other three programs are significantly smaller than SAL—with between $500,000 and $1.1 million of state investment. By contrast, multiple programs with less state investment than SAL are included in statute, including the Tuition Equalization Grant and various specialized scholarships and grants.

Exhibit 10
Most State Aid Programs Are Codified in Georgia Law

Program	Codified in State Law?	FY 2021 Appropriation
HOPE Grant & Scholarship Programs	✓	$887,549,246
Dual Enrollment Program	✓	$89,836,976
Student Access Loan	✗	$26,000,000
Tuition Equalization Grant Program	✓	$21,835,328
Realizing Educational Achievement Can Happen Scholarship (REACH)	✓	$6,370,000
University of North Georgia Military Scholarship	✓	$3,037,740
University of North Georgia ROTC Grant	✓	$1,113,750
Georgia Military College State Service Scholarship	✗	$1,082,916
Scholarship for Engineering Education Service Cancelable Loan	✗	$954,450
Georgia National Guard Service Cancelable Loan	✓	$945,000
Georgia HERO Scholarship	✓	$630,000
Georgia Public Safety Memorial Grant	✗	$540,000

Source: GSFA, O.C.G.A., and FY2021 Appropriations

Absent statutory language, SAL is operationalized solely through GSFA's regulations, which include requirements related to eligibility, repayment terms, and consequences of defaulting. These regulations are approved by the entity's Board of Commissioners during public meetings when revisions are deemed necessary. However, they are exempt from the Administrative Procedures Act, which excludes "rules relating to loans, grants, and benefits by the state." As such, the regulations do not receive the legislative review required for other state rules and regulations.

The lack of legislative oversight means the loan—and its requirements—are at the full discretion of the authority. While this is statutorily permissible, some regulatory requirements differ from those that the legislature has codified in statute for other loans. In particular, the statutes for two loans[10] mentioned in House Bill 326 (but not funded and therefore not in operation) include requirements that differ from the terms set in GSFA's regulations for SAL. For example:

- **Default Interest Rate** – Similar to SAL, both loans allow initial interest rates[11] to increase if the borrower defaults on their loans. However, statute indicates that the new interest rate should be a "reasonable interest rate," defined as "an interest rate no higher than *The Wall Street Journal* (WSJ) prime rate[12]" effective at the beginning of the relevant fiscal year. GSFA used this language in its regulations during SAL's first year but subsequently moved away from the requirement—changing to a static 8% in fiscal years 2013 and 2014 and then 5% from 2015 to present.

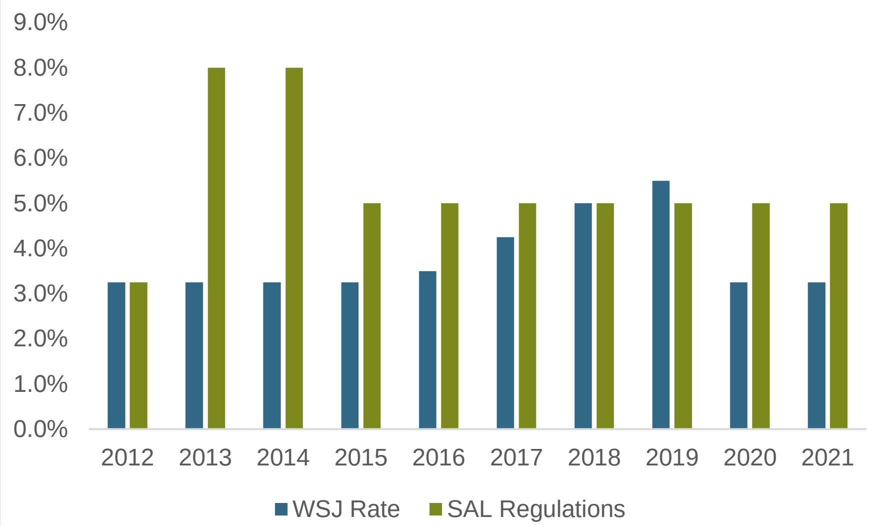
  GSFA indicated the change was to eliminate complications stemming from handling varying interest rates; however, the interest rates selected were generally—and often significantly—higher than the WSJ prime rate for that year, which has ranged from 3.25% to 5.5% between 2012 and 2021 (see **Exhibit 11**). As a result, students who default are obligated to pay significantly more. For example, a 2021 borrower who defaults on a $8,000 loan would be required to pay $63.26 per month under the 5% interest rate—compared to $56.21 under the current WSJ rate of 3.25%. Over 15 years, GSFA would require this individual to pay nearly $1,300 more than they would if SAL operated under the statutory language described in the other two loans.

[10] O.C.G.A. § 20-3-395.1 created a direct loan to students on the basis of merit and need. O.C.G.A. § 20-3-400 created the "Graduate on Time Student Loan," which decreased the borrower's interest rate if they finished their program within a stated time period.

[11] Both loans stipulate an initial interest rate of 1%, though the Graduate on Time Loan requires borrowers to complete their course of study with a GPA above 2.0 and within a designated time period.

[12] *The Wall Street Journal* prime rate is the base rate on corporate loans posted by at least 70% of the 10 largest banks in the United States.

Exhibit 11
SAL's Default Interest Rate Has Been Higher Than the Rate Outlined in Other Loans' Statutes (FY12-21)



Source: SAL regulations, *The Wall Street Journal*

- **Repayment Terms** – Both loans require a 10-year repayment period, while SAL's repayment has been listed as 15 years since fiscal year 2016 (prior to that it was 10 years). While this decreases borrowers' monthly payment amount (which may promote borrower repayment, as described in the finding on page 38), the total amount repaid increases because they are paying more interest. For example, an individual owing $8,000 at a 1% interest would pay approximately $50 per month, resulting in $618 in interest payments over 15 years. That same loan would require only $410 in interest payments over 10 years; however, the monthly payment increases to $70.

It should be noted that all other states with comparable loans have codified the requirements in statute. Should the General Assembly wish to create parameters around how the $26 million in state funds is distributed and repaid, legislation would be required. In creating the statute, the General Assembly should consult with GSFA staff to carefully balance the need to minimize administrative complications with promoting borrower repayment. This report's findings provide insight into current practices, which should be addressed in GSFA's regulations regardless of whether the loan is codified in statute.

RECOMMENDATIONS

1. The General Assembly should consider codifying SAL in statute if it wishes to have more oversight over the terms by which the loan is distributed and repaid.

2. GSFA should assess SAL's terms—particularly its interest rate—to determine whether any are detrimental to borrowers overall or within a particular population.

Agency Response: *"GSFA agrees that SAL is not statutorily codified."*

Recommendation 1: *No comment.*

Recommendation 2: *"In its ongoing efforts to assure that its programs are being administered effectively, efficiently, and fairly, GSFA will continue to review SAL terms, interest rates, and other programmatic aspects."*

Finding 3: Georgia is one of few states that offer loans for need-based financial aid, which is usually achieved with grants and scholarships.

Georgia is one of seven states to offer loans to undergraduate students, and SAL represents Georgia's primary method of providing need-based aid. Additionally, while Georgia offers the highest amount of total undergraduate grant dollars per student, the majority is dedicated to the merit-based HOPE scholarship and Zell Miller scholarship and grant. Compared to Georgia, most contiguous states have dedicated larger portions of state resources to need-based grants or scholarships.

Need-Based Aid

Aid that primarily considers ability to pay

Merit-Based Aid

Aid that primarily considers academic factors such as GPA or standardized test scores

In addition to standard allocations provided to institutions or postsecondary systems for operational support, states typically provide direct aid to help offset the costs of postsecondary education borne by students and their families. Aid that considers a student's need for financial assistance[13] (rather than providing funds strictly based on a student's merit) has become particularly necessary because federal assistance (e.g., Pell Grant program) has not kept up with the increasing costs of postsecondary education in recent years. Based on states' self-reported information,[14] this "need-based aid" typically comes in two forms:

- **Grants or Scholarships** – Aid students do not have to pay back. Grants or scholarships may be strictly based on need or also include a merit-based component.

  While Georgia students with financial need can access Georgia's HOPE scholarship or Zell Miller scholarship/grant, they must also meet a merit requirement. Similarly, all students—regardless of financial need or merit[15]—are eligible for the Tuition Equalization Grant if they enroll in a private institution or the HOPE Grant if they enroll in certain programs (mostly technical certificates and diplomas). Based on these eligibility criteria, we did not include these programs in our review of assistance with only need-based components. See Appendix E for a list of Georgia's financial assistance programs included in our review.

[13] Generally based on estimated family contribution calculated in the student's Free Application for Federal Student Aid. Some states may also consider income levels.

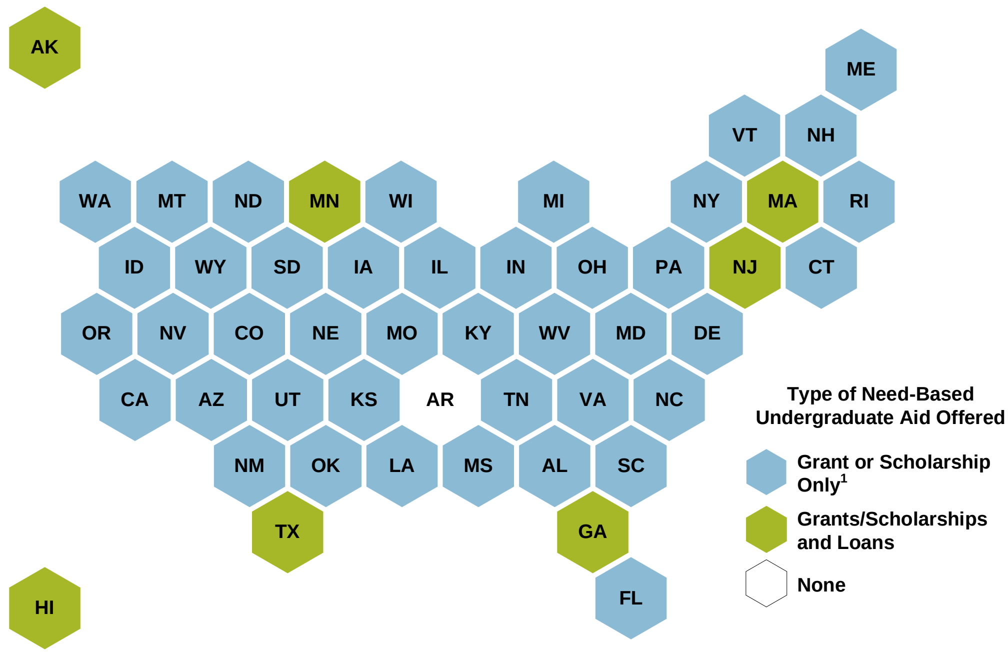
[14] Obtained information from the state survey administered by the National Association of State Student Grant and Aid Programs (NASSGAP). See Appendix B for a description of the review and our analysis.

[15] Similar to SAL, HOPE Grant and Tuition Equalization Grant recipients must maintain Satisfactory Academic Progress (SAP) for continued eligibility. SAP comprises standards that postsecondary students require for students to maintain good standing with financial aid programs and their program of study. SAP requirements vary by institution but generally include a minimum GPA (most often 2.0) and a number of credit hours the student must achieve.

- **Loans** – Aid students must pay back—usually with interest—in future years.

As shown in **Exhibit 12**, nearly all states provide need-based assistance through grant or scholarship programs.[16] Loans are significantly less common—Georgia is among only seven states that originate loans for undergraduate students. In five of the six other states with loans, the need-based grant programs are significantly larger than the loan programs. For example, in fiscal year 2019 Texas dedicated approximately $486 million to its two need-based, non-merit grants—approximately three times more than the $155 million dedicated to its loan program. By contrast, Georgia dedicated approximately $4.6 million to its REACH scholarship program—approximately 18% of SAL's $26 million appropriation (the appropriation increased to $6.4 million in fiscal year 2021).

Exhibit 12
Georgia is One of Seven States that Operate a Loan Program

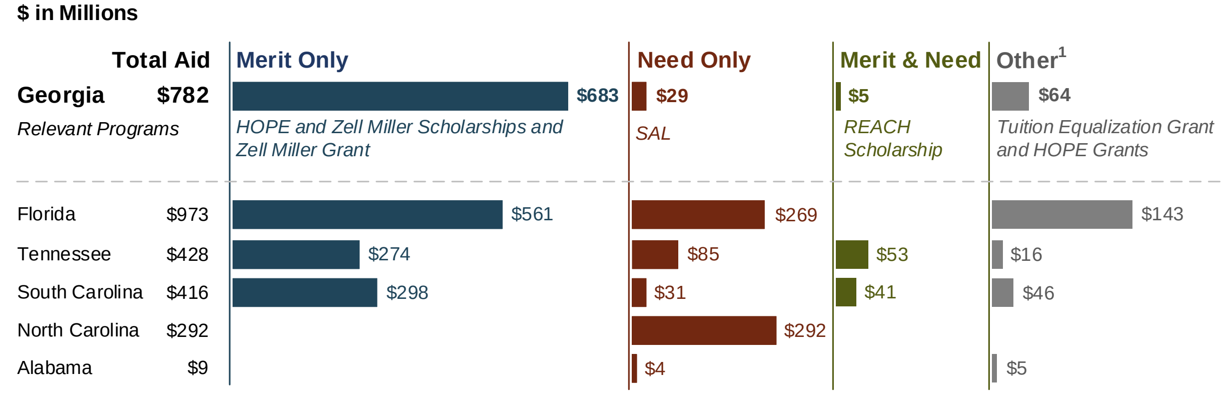


[1] These may include grant or scholarship programs with both need and merit elements.
Source: NASSGAP

Georgia is also unique among adjacent states when comparing the proportion of need-based aid to merit-based aid. As shown in **Exhibit 13**, approximately 4.3% of Georgia's total undergraduate state aid is need-based (in the form of SAL and the REACH Scholarship), compared to contiguous states that dedicate at least 17.0% of their undergraduate financial assistance to programs that consider need in addition to or rather than merit. As a result, Georgia's state investment in need-based assistance is significantly lower than that of most contiguous states. For example, Florida dedicates nearly 30% of its state dollars to aid based solely on financial need—totaling approximately $268.8 million compared to Georgia's $28.8 million.

[16] While Arkansas provided a need-based grant program at the time of the survey, our research shows it ceased accepting new applicants for the 2022 academic year. We confirmed all other state programs listed in NASSGAP's survey were still in effect.

Exhibit 13
Georgia Offers a Smaller Proportion of its Funds to Need-Based Aid Compared to Adjacent States (FY 2019)



[1] Programs similar to Georgia's Tuition Equalization Grant or HOPE Grants, which do not use need- or merit-based criteria to determine eligibility.

Source: NASSGAP

Georgia awards more grant dollars per undergraduate full-time enrolled (FTE) student than any other state in the country (approximately $2,400)—primarily through its merit-based HOPE and Zell Miller programs. South Carolina and Tennessee are also among the top five states in the amount of grant dollars per undergraduate FTE student and have large merit-based grants or scholarships similar to HOPE. However, these states have diversified the aid provided. Tennessee, for example, dedicates approximately $85 million of its aid to grant programs awarded solely based on need and an additional $53 million to assist students based on need and merit. Similarly, South Carolina dedicates approximately $31 million to need-based grants and an additional $41 million to grants that consider need and merit.

Unlike other states' need-based aid programs, SAL was not created to increase access to college for specifically low-income students. Rather, GSFA and legislative staff indicated SAL was created to assist those impacted by reductions to the HOPE Scholarship Program, which was meant to manage the state's increased financial obligation necessary to cover full tuition and fees for a large number of postsecondary students. According to GSFA and legislative staff, a loan program was preferred because it assists those who have exhausted all other forms of assistance but also requires the student to take on some responsibility because they have to repay the money over time.

However, because Georgia's need-based aid is limited to SAL, low-income students who no longer meet the academic requirement to retain the HOPE scholarship (3.0 GPA) have no other option to close the financial gap that now exists. As such, they may have to forgo their education or seek loans from the state or private companies, which they must repay or else face negative consequences (see page 32). Staff from other states with loan programs indicated they direct low-income students to the need-based grants or scholarships they qualify for instead of the loan, which is instead targeted toward those most likely to repay.

It should be noted that while Georgia does not have a grant based solely on need, the General Assembly recently endorsed the concept. In 2018 the General Assembly passed House Bill 787 into law (effective July 2018), which included a provision authorizing the Georgia Student Finance Commission to establish a need-based grant program if the General Assembly appropriates funds for such program in the future.

Agency Response: *"GSFA agrees that there are relatively few state-funded and state-operated student financial aid loan programs" and that these states' legislative bodies created "differing financial aid programs to meet the needs of the students in their respective states. Georgia's General Assembly and Governor have over time instituted several merit-based scholarships (e.g., the HOPE and Zell Miller Scholarships), non-merit-based grants (e.g., Public Safety Memorial Grant and Tuition Equalization Grant), and the state's need-based REACH Scholarship. Georgia's General Assembly and Governor have also instituted several service cancellation loan programs as well as the SAL loan program. These loan programs constitute a relatively small portion of the total dollars appropriated for the variety of programs administered by GSFA/GSFC."*

Finding 4: While SAL's receipts pay for administrative expenses and supplement state appropriations for loans, the program must rely on state funds to meet loan demands.

As a loan program, SAL's repayment agreements with borrowers has enabled GSFA to use receipts to cover administrative costs and meet a loan demand that has surpassed state appropriations since fiscal year 2017. Though its cash flow has increased over time, even in the most optimistic repayment conditions it would not yet be sufficient to supplant the state appropriation and assist all qualified applicants. Low collection rates further hinder the degree to which SAL could be self-sufficient.

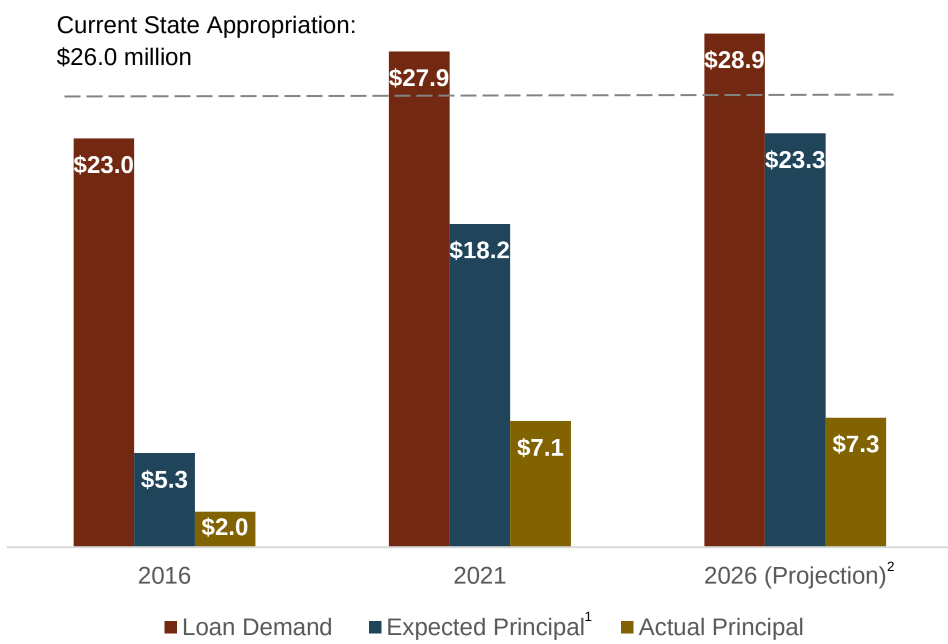
While grants and scholarships are advantageous to students because they do not need to be repaid, loans present an opportunity for the state to generate cash flow that can be used to cover administrative costs and—as more funds are collected over time—supplant state investment. This intent is not explicitly documented in SAL's appropriations or regulations; however, the program's fiscal year 2015 Zero-Based-Budget report noted that because GSFA can retain prior year funds and borrower payments, it is expected that "after several years" it would require fewer appropriations and "may even become self-sustaining."

Over the past nine years, SAL has generally collected enough revenue (i.e., borrower fees and interest payments) to cover its administrative expenses. In fiscal year 2021, for example, SAL collected approximately $3.6 million in revenue for approximately $3.0 million in expenditures. The net gain of $587,000 became part of GSFA's unrestricted funds, which means it can be used to support other GSFA programs (e.g., REACH scholarship) that—like SAL—do not receive a state appropriation specifically for their administration. SAL's net gains on revenue have totaled nearly $6.0 million since its inception.

Unlike administrative revenue, borrowers' principal repayments are restricted to SAL, and payments have been used to supplement state appropriations. The principal payments collected have helped ensure GSFA can meet the full demand for loans each year (which has exceeded state appropriation since fiscal year 2017). Since fiscal year 2015, SAL has distributed an additional $16.5 million to qualified borrowers—at an average of $5,000 per loan, this means GSFA has issued an estimated 3,300 additional loans to students.

While SAL's cash flow has increased over time as more borrowers enter repayment, the program will continue to rely on state appropriations to meet the full demand for loans among qualified applicants. This is primarily related to SAL's repayment rate—which has averaged approximately 30% over the past three years. As shown in **Exhibit 14**, in fiscal year 2021, approximately $18.2 million in principal repayments were expected based on amortized debt obligations (which could pay for approximately 65% of the $27.9 million in loans distributed). However, GSFA only collected approximately $7.1 million—approximately 40%[17] of the expected principal and approximately 25% of the loan demand. If repayment rates continue based on prior years, by fiscal year 2026 actual principal collected will increase only slightly, and state appropriations would still be needed to fund the majority of loan demand[18].

Exhibit 14
SAL Does Not Collect Sufficient Principal to Meet Loan Demand Without State Appropriation



[1] Expected principal for 2016 and 2021 is based on monthly payments calculated using the borrowers' total origination amounts, 1% interest rate, and loan terms. Adjustments related to the $50 minimum payment requirement were made as necessary. Analysis assumes all borrowers pay the required amount each month. See Appendix B for a more detailed description of the methodology.

[2] Expected principal was projected based on the averages for fiscal years 2019-2021. Actual principal was estimated using the average collections rate for the same years.

Source: GSFA Servicing Table

[17] SAL's repayment rate was at its peak (40%) in fiscal year 2021—approximately eight percentage points higher than the average collection rate of 32% in prior years. GSFA staff attributed this to COVID-19 relief efforts—particularly the stimulus checks and the freezing of federal loan repayments. Staff stated they did not expect the repayment rate to continue in future years, however.

[18] This assumes loan demand continues to follow a similar trend as prior years. If loan demand decreases, SAL's reliance on state appropriations would also decrease.

Georgia is unique among other states with comparable loans in that it funds its program via state appropriations. The six other states fund their programs through bonds or solely with principal and interest payments. Those that target low-income borrowers and rely solely on borrower payments noted, however, that their loan programs are relatively small and may not be viable due to their dependency on borrower repayments and relatively high default rates.

The gap in expected and actual principal collections is primarily due to SAL's default rate (the percent of borrowers who have not made a payment in 270 days)—as discussed in the finding on page 31, approximately 31% of SAL borrowers default within three years. Borrowers may also not make payments for several months if they have been approved for a deferral or forbearance (discussed on page 36). Finally, GSFA generates less repayment receipts when borrowers are able to discharge or cancel their loans, though this has been uncommon (discussed on page 27).

It should be noted that due to lower demand in SAL's early years, the program has built up a reserve that totaled nearly $13 million at the end of fiscal year 2021. As such, GSFA could supplant a portion of the $26 million state appropriation if the General Assembly decided to dedicate fewer lottery dollars to the program. However, a decrease in state appropriations could necessitate further changes to the program, which could be undesirable. For example, GSFA may have to adjust the type of borrower eligible for the loan because there would be a greater emphasis on the likelihood of repayment (thus lowering the default rate but also decreasing access). Similarly, GSFA would have less incentive to encourage loan discharge and service cancellation or approve requests for deferral or forbearance. GSFA could also modify the loan terms and decrease maximum amounts available—or close the application process earlier, which could also limit access.

It is also possible that GSFA could use its administrative revenue (i.e., fees, interest payments) for loan distribution by moving them into a fund restricted for SAL. However, GSFA and the General Assembly would need to determine how to address the administrative costs of other GSFA programs currently relying on those funds.

RECOMMENDATIONS

1. The General Assembly should determine and communicate the extent to which it expects to continue dedicating $26 million in lottery funds to SAL.

2. Should the General Assembly determine that state appropriations will decrease at a specified time, GSFA should develop a plan to move SAL toward a necessary level of self-sufficiency.

Agency Response: *"GSFA agrees that the appropriations bill that created the SAL program did not characterize SAL as a program intended to become self-sufficient with no reliance on state appropriations. GSFA agrees with DOAA's analysis that SAL is not currently, nor will it likely become in the near future, a self-sustaining program that could meet current levels of demand based solely on principal repayment."*

Recommendation 1: *No comment*

Recommendation 2: *"GSFA stands ready to provide the General Assembly with all data, impact analyses, and programmatic details it may request… Should appropriations and/or directives for the program be changed, GSFA would develop and implement program changes to comply."*

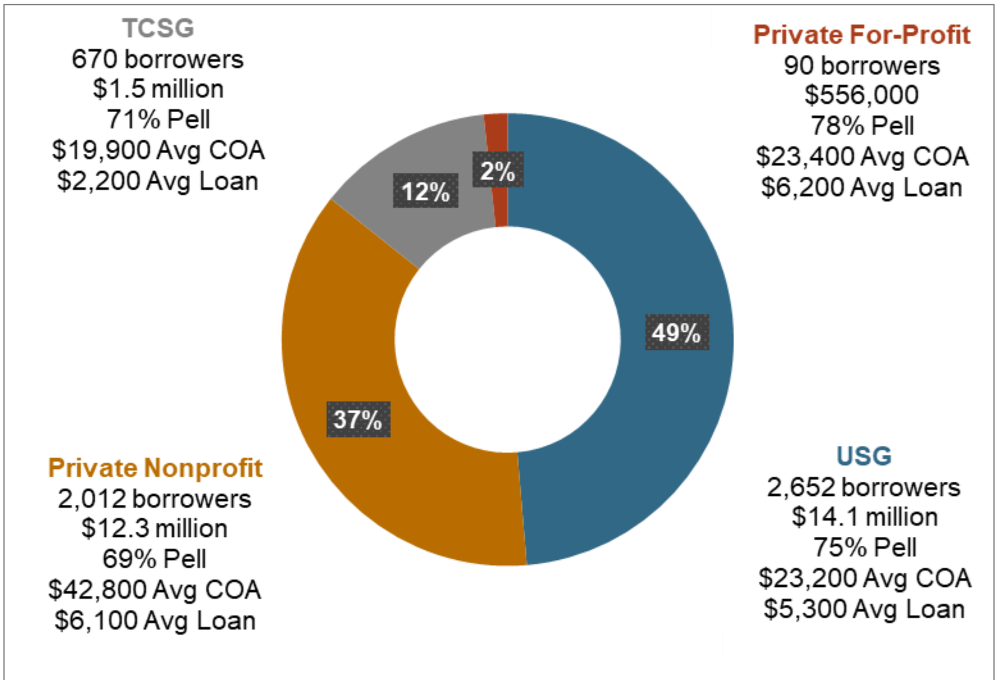
Finding 5: The makeup of SAL borrowers has not changed over time, with the exception of the decline among TCSG students.

The availability of cash flow each year has enabled GSFA to provide loans to any applicant who has been certified as having a gap in the cost of attendance and their estimated financial aid and family contribution. As such, GSFA has not created criteria to target particular groups. Certain borrower characteristics (socioeconomic status and HOPE participation) have generally not changed over time, though fewer borrowers are TCSG students and more borrowers are financially dependent.

According to the National Commission on Financing 21st Century Higher Education, state financial aid plans should be designed to achieve a defined policy strategy. To that end, states should develop approaches that are clear, predictable, and focus resources where they will have the greatest impact. Currently, SAL's total receipts from state appropriations and principal repayment has enabled GSFA to serve any applicant with certified need (i.e., a balance on cost of attendance after all aid has been exhausted). As such, it has not yet been necessary for GSFA to develop criteria related to a defined policy strategy.

In fiscal year 2021, USG and private nonprofit students comprised the majority of SAL recipients—approximately 49% and 37%, respectively (see **Exhibit 15**). There is evidence that most borrowers need the loan due to their inability to pay given the prominence of borrowers eligible for the federal Pell Grant, which is awarded to those with "exceptional financial need" based on cost of attendance and estimated family contribution. However, private nonprofit students also appear to need the loan due to a higher cost of attendance—loan recipients' reported cost of attendance averaged approximately $43,000, approximately 84% higher than USG's ($23,000).

Exhibit 15
SAL Generally Benefits Four-Year Students (FY 2021)



Source: GSFA Servicing Table

Generally, borrower characteristics have not changed since SAL's inception, with the exception of the decline in TCSG borrowers, as described below.

- **Institution Type** – TCSG borrowers have become an increasingly smaller proportion of loan recipients in recent years—dropping from a peak of nearly 50% in fiscal year 2015 to only 12% in fiscal year 2021. There could be several reasons for this decline—most notably the decline in traditional[19] students enrolled at technical colleges (which decreased by approximately 40% between fiscal years 2011 and 2019). GSFA and technical college staff stated the decrease may also be attributed to students' low cost of attendance, coupled with more programs becoming eligible for the HOPE Career Grant[20].

- **Socioeconomic Status** – On average approximately 75% of borrowers have been eligible for the federal Pell Grant. The proportion has fluctuated but ultimately decreased slightly since SAL's inception—from 78% in fiscal year 2012 to 72% in fiscal year 2021. This is primarily due to the decrease among nonprofit private borrowers (from 76% to 69%) and TCSG borrowers (from 88% to 71%). By contrast, the percent of USG borrowers with Pell has generally remained the same (between 71% and 75%).

- **Financial Dependency** – Approximately half of those approved for a SAL are listed as financially dependent, which means they are assumed to be relying on their parents to assist with postsecondary costs. Since fiscal year 2015, the percent has increased significantly—from an average of 39% in the first half of the program to an average of 62% in the last five years. This is likely due to the increased proportion of USG and private nonprofit students, who are more likely to be financially dependent.

- **HOPE Recipients** – According to GSFA and legislative staff, SAL was initially created to fill the gap in student aid resulting from HOPE reforms, which reduced benefits to students who did not meet the new academic requirements. With the rolling application, priority is given to HOPE recipients over non-recipients who apply on the same day.

  On average, approximately 33% of borrowers are HOPE recipients in the year they obtained their loan. The proportion of HOPE beneficiaries has not changed significantly over time, though there have been fluctuations by institution type. The proportion of HOPE recipients has increased among four-year borrowers between the first half of the program to more recent years—from an average of 21% to 26% for USG and 26% to 39% among private nonprofit students. By contrast, the proportion of HOPE recipients among TCSG students has decreased from an average of 62% between 2012 and 2015 to an average of 44% since fiscal year 2016.

As previously discussed, the availability of funds has enabled GSFA to provide loans to all qualified students who apply, regardless of any characteristics that may require

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[19] Traditional students pay tuition and fees to attend a technical college (and are thus eligible for the loan), in contrast to dual enrollment students who may also enroll in a postsecondary institution but attend for free.

[20] The HOPE Career Grant is awarded to students who are qualified for the HOPE Grant or Zell Miller Grant and enroll in programs that have been deemed strategically important to the state's economic growth. In fiscal year 2022, this was available to eligible students at all technical colleges and four USG institutions. Students receive a fixed amount per semester based on the number of hours enrolled (ranging from $125 to $500).

attention when resources are limited. Should the demand for the loan begin to outpace SAL's principal collections, GSFA may need to determine whether criteria are necessary to focus limited resources on populations who are most likely to benefit.

Agency Response: *GSFA agreed with the finding.*

Finding 6: While SAL borrowers generally persist to the next academic year, fewer obtain an award.

The majority of SAL participants maintain enrollment or obtain awards within time frames deemed appropriate by industry standards. However, a smaller percentage of borrowers obtained an award—an average of 52% compared to the 85% who persisted to the next academic year. In particular, TCSG students who obtained the loan achieved successful academic outcomes at a higher rate than those who applied for but did not receive a loan in the same year.

According to its appropriations bill and regulations, SAL's purpose includes encouraging "timely persistence to the achievement of postsecondary credentials." This is consistent with the National Commission on Financing 21st Century Higher Education's recommendation that financial aid programs should be aligned with state goals related to student progress and timely degree completion. Additionally, as discussed on page 35, such attainment is important because graduates are more likely to pay off their loans than those who dropped out.

GSFA's performance measures report outputs such as number of students obtaining a loan and average loan amount. However, GSFA does not analyze or report the extent to which SAL participants are achieving postsecondary success—either by remaining enrolled or obtaining awards. This information is likely available from the National Student Clearinghouse, which provides GSFA enrollment status but could also include whether the individual graduated or withdrew.

We used the Governor's Office of Student Achievement's GA AWARDS database[21] to assess academic achievement of those who obtained a SAL based on two common postsecondary metrics (described below). We compared borrowers' outcomes to those of the students who applied but did not obtain a loan during the same year.[22] Due to reporting limitations among private institutions[23], we were unable to include

[21] GA AWARDS includes enrollment and credential information for postsecondary students in Georgia. See Appendix B for a more detailed description.

[22] Characteristics of borrowers and applicants were similar. In particular, among both populations, approximately 30% received HOPE or Zell Miller aid the same year they applied for the loan. A slightly larger proportion of SAL borrowers were Pell Grant recipients (approximately 78% compared to 65% among applicants). Additionally, as discussed previously, all qualified applicants have been able to obtain the loan if the school certifies need and they complete administrative requirements such as signing the promissory note.

[23] Unlike USG and TCSG, private institutions are not required to submit data to GA AWARDS. Though the majority of nonprofit institutions are represented, no for-profit institutions were identified as reporting enrollment or award information. For all institution types, we limited our analysis to those who could be identified in GA AWARDS enrollment data in the year they applied for or received the loan. This represented approximately 65% of private nonprofit borrowers and 95% of USG and TCSG borrowers.

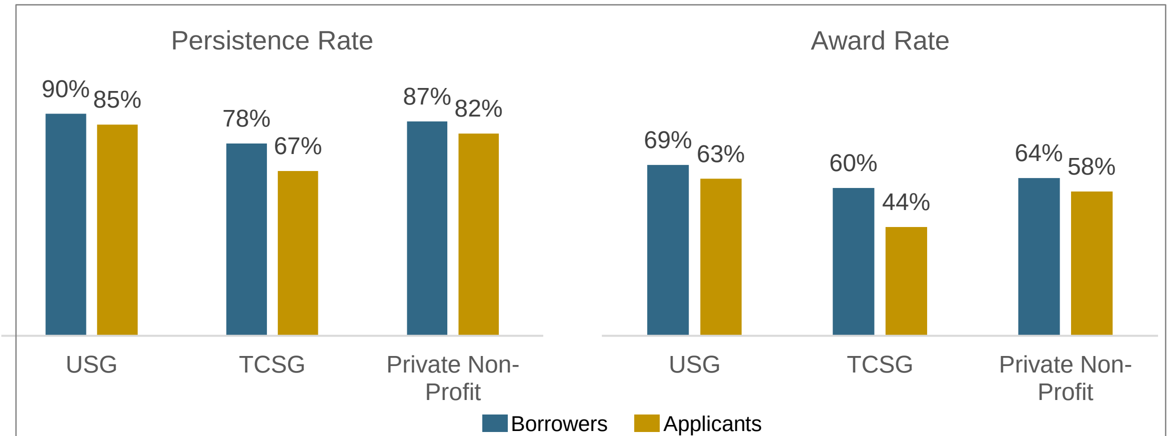
for-profit borrowers in our analysis (though these only represent less than 5% of total borrowers).

- **Persistence Rate** – Measures the extent to which students remain enrolled during the subsequent academic year. This metric is typically used for first-time students; however, because SAL borrowers may obtain loans in other years, we modified the analysis to include whether the student obtained an award in their loan year or remained enrolled in the next academic year. We calculated persistence rates for those who applied for or received a loan in fiscal years 2012-2019.
- **Award Rate** – Measures the extent to which students obtain an award within a defined time period. We calculated the rate based on the National Center of Education Statistics definition for graduation rate, which limits the review period to 150% of normal completion time. This equates to six years for four-year postsecondary students and three years for TCSG students. As a result, our analysis was limited to those who applied for a loan between fiscal years 2012 and 2015.

While SAL borrowers generally persisted to the next academic year, they were less likely to ultimately obtain an award. On average, approximately 85% of SAL recipients remained enrolled in postsecondary education in the year following their loan; however, by comparison on average 52% of SAL borrowers obtained an award within 150% of the normal completion time. For example, among those who obtained a loan in fiscal year 2015, approximately 80% persisted to the 2016 academic year but 54% ultimately obtained an award.

As shown in **Exhibit 16**, among all institution types SAL borrowers were more likely to persist or obtain an award compared to those who applied but did not receive a loan in the same year. Overall, borrowers' persistence rate was approximately six percentage points higher than the rate of those who applied (85% vs. 79%), and their award rate was approximately nine percentage points higher (52% vs. 43%).

Exhibit 16
Loan recipients generally persisted to the next academic year, but were less likely to obtain an award[1]



[1] Average rates for the years reviewed. Persistence rate included borrowers and applicants for fiscal years 2012-2019, while award rate was limited to fiscal years 2012-2015 to allow for sufficient time to obtain the award after the loan.
Source: GA AWARDS, GSFA

Outcome differences were largest among TCSG borrowers—particularly in obtaining an award. On average, approximately 60% of TCSG students who received a loan between fiscal years 2012 and 2015 obtained an award within three years, compared to only 44% of those who applied but did not receive a loan in the same year (a difference of 16 percentage points). By contrast, award rates were similar for students at four-year institutions. Rates differed by only seven percentage points for USG students (69% vs. 63%) and six percentage points for students at private nonprofit institutions (64% vs. 58%).

The National Commission on Financing 21st Century Higher Education notes that financial aid programs (including loans) that intend to support student progress toward completion should be designed as such. Other states have accomplished this by incorporating credit hour thresholds into their criteria, targeting aid to populations more likely to be impacted by the assistance (vs. those who would enroll or graduate regardless), or combining financial need with academic requirements. Similarly, a consultant hired by GSFA recommended incentivizing program progression by increasing loan limits as the student persists or providing incentives for each year completed.

It should be noted, however, that actions listed above could limit the population able to receive the loan and/or create detrimental consequences for not completing a program. For example, GSFA's "Graduate on Time" stipulation for SAL borrowers in 2013 and 2014 increased interest rates from 1% to 6% or 8% for untimely program completion. An estimated 89% (over 5,100) of the 5,800 students who borrowed in those loan years have an 8% interest rate on their loans, and approximately 43% (2,200) have defaulted.

RECOMMENDATIONS

Any formally defined goals and priorities (as recommended in Finding 1) will impact action related to these recommendations. Absent legislative action, GSFA should consider consulting with the General Assembly regarding how addressing these recommendations would impact potential borrowers' access to the loan or their debt obligation.

1. If award achievement continues to be a metric of SAL's effectiveness, GSFA should consider incorporating the goal in its program design.

2. If award achievement continues to be a metric of SAL's effectiveness, GSFA should collect data from the National Student Clearinghouse to track award and persistence outcomes of SAL borrowers. Analyses on persistence and award rates could be performed in-house or by an outside entity.

Agency Response: *"GSFA does not have access to enrollment and degree/credential completion data sufficient to independently replicate these findings. Nevertheless, GSFA agrees that the DOAA analyses point to SAL borrowers persisting in subsequent year enrollment. GSFA also agrees that the DOAA degree completion analyses point to SAL borrowers possibly showing lower postsecondary credential attainment percentages relative to persistence percentages. As noted in the report, these results are based on available information at the time and do not include enrollment and degree completion for every SAL borrower."*

Recommendation 1: *"GSFA stands ready to provide the General Assembly with all data, impact analyses, and programmatic details it may request regarding any of the programs administered by GSFA and/or GSFC. Should directives for the program be changed, GSFA would develop and implement program changes to comply with and support any directed program modifications."*

Recommendation 2: *"Tracking enrollment and degree/credential attainment would require checking the status of each student each term for multiple years following the year in which the loan was awarded. This would result in additional administrative costs associated with expanding the contractual use of NSC data."*

Finding 7: Few borrowers have benefited from service cancellation and loan discharge.

GSFA offers SAL borrowers two programs to reduce or eliminate their repayment obligation to the state: service cancellation and loan discharge. Few borrowers have benefited, however, primarily due to limited eligibility criteria. Additionally, there is evidence indicating borrowers may not be aware of the service cancellation opportunity, for which they must apply.

As shown in **Exhibit 17**, few borrowers have participated in the two programs GSFA offers to relieve borrowers of their debt obligation: cancellation (for graduates with an associate or bachelor's degree) and discharge (for technical college graduates). These programs—and the reasons for limited participation in each—are described below.

Exhibit 17
Nearly $4.0 Million Has Been Cancelled or Discharged (FY 2012-2021)

Service Cancellation	Loan Discharge
Cancels a loan for every consecutive year of public service	*Cancels full loan obligation when graduating with at least 3.5 GPA*
Offered to those who graduate with a bachelor's or associate degree	*Offered to technical college graduates*
$507,000 cancelled for **170 borrowers** (<1% of population)	**$3.2 million** discharged for **1,100 borrowers** (13% of population)

Source: GSFA

It should be noted that increased participation in both programs benefits borrowers because all or a portion of their debt obligation can be eliminated. However, this limits SAL's ability to generate cash flow and become a self-sufficient program, particularly because these programs are only available to graduates, who are also more likely to repay their loans (see page 35). As such, no other state with similar undergraduate loans offers cancellation or discharge. GSFA—in consultation with the General Assembly—should consider how any additional action (to either increase or limit participation in the programs) impacts these competing goals.

Service Cancellation

The state's annual Appropriations Bill states that one purpose of SAL is to "incentivize public service work among loan recipients." To that end, SAL borrowers[24] from four-year postsecondary institutions can request a loan cancellation for every year of consecutive service as a public school teacher or public service employee[25] in Georgia. For example, if an individual utilized a SAL for four postsecondary years, they could work in an eligible field for four years and have the balance[26] of all four loans cancelled.

As of June 2021, 170 borrowers have received at least one loan cancellation—totaling approximately $507,000. Approximately 44% (75) were able to cancel all their loans, while 30% (51) have had half of their loans cancelled. Borrowers who received cancellation worked in various industries such as public schools (e.g., elementary, secondary, colleges), law enforcement and corrections, and administration.

Few borrowers have taken advantage of the program since its inception in 2012—the 170 participants represent less than 1% of borrowers who have entered into repayment as of June 2021. There are several reasons for low participation, as discussed below.

- **Restricted fields** – GSFA limits "public service eligibility" to state and local positions. According to staff, applicants are typically denied because their employer (typically nonprofit or federal) does not qualify under service cancellation requirements.

  Additionally, the Appropriations Bill indicates that "loans are forgivable for recipients who work in certain critical need occupations." However, GSFA has not expanded the service cancellation to include these occupations or defined what they may be. Based on the occupations listed under the HOPE Career Grant—which primarily assists technical college students in programs identified as "strategically important to the state's economic growth"—these professions could be expanded to include professions such as construction and nursing.

- **Lack of Borrower Awareness** – Borrowers must apply for the service cancellation, and our review of Department of Labor unemployment insurance data suggests that more SAL borrowers may be eligible than have participated. Based on a review of employment codes that reflect public service[27], approximately 1,300 borrowers from four-year institutions may have been eligible to cancel at least one year of loans, and an estimated 220 could have cancelled most of their loans. Participating in the program may have provided some borrowers with necessary assistance—approximately 39% (495) of those potentially eligible have defaulted on their loans.

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[24] This is only for borrowers participating since fiscal year 2016. For those participating between fiscal years 2013 and 2015, one year of service cancels $750.

[25] According to GSFA, "public service" includes employees for the state of Georgia (e.g., executive, legislative, and judicial branches), the University System of Georgia, local boards of education, or local government.

[26] Borrowers must make Keep In Touch payments while in school and monthly payments while in repayment. As such, borrowers who have worked for at least a year will have made some payments on their loan(s) prior to cancellation.

[27] We obtained Department of Labor unemployment insurance data from the Governor's Office of Student Achievement's GA AWARDS dataset and identified borrowers employed in the Education and Public Administration sectors. See Appendix B for a more detailed description.

GSFA includes information about service cancellation on borrowers' promissory note, as well as its website and in correspondence with borrowers at multiple instances (e.g., upon receiving the loan and entering repayment). However, given the low participation, improvements could be implemented to ensure clarity and accessibility. For example, GSFA's information regarding eligible teachers may be confusing—the eligibility form highlights STEM teachers' eligibility[28] but does not clarify that all public school teachers would be eligible as local government employees.

- **Population Restrictions** – According to GSFA staff, borrowers from technical colleges are not included in the program because they are instead able to take advantage of the loan discharge described below. We identified an estimated 435 TCSG graduates who appear to work in eligible fields, such as courts and junior colleges; only five received a loan discharge upon graduation.

Loan Discharge

According to SAL regulations, TCSG borrowers can request a loan discharge if they graduate from the program for which they received the loan with a GPA of 3.5 or above. Unlike service cancellation, TCSG students do not have to apply for the loan discharge. Since 2016, GSFA has received a list of eligible borrowers[29] from TCSG and will automatically discharge the full loan.

Since 2012, approximately $3.2 million in loans has been discharged for 1,100 TCSG graduates, approximately 13% of the 8,370 who have entered into repayment during that time. While a larger proportion of borrowers benefit from discharge compared to cancellation, adjustments could be made to increase access to the program, as described below.

- **Eligibility Criteria** – The 3.5 GPA requirement for loan discharge is higher than what is required to maintain eligibility for other GSFA programs; for example, students must maintain a 3.0 to demonstrate satisfactory academic progress to remain in the HOPE programs. Lowering the GPA requirement to 3.0 would expand access to the discharge—in the 2020 academic year, for example, an additional 87 TCSG students would have been eligible, approximately 30% more than 67 who did receive the discharge.
- **Population Restrictions** – Because they can obtain a service cancellation, borrowers from four-year institutions are not eligible for the loan discharge. If these graduates were included, an estimated 1,600 borrowers currently in repayment would have benefited—approximately 21% of borrowers in repayment who graduated from four-year institutions.[30]

RECOMMENDATIONS

Any formally defined goals and priorities (as recommended in Finding 1) will impact action related to these recommendations. Absent legislative action, GSFA should

[28] Science, Technology, Engineering and Mathematics (STEM) teachers may request cancellation for part-time teaching resulting in partial cancellation, while borrowers in Public Service only qualify with full-time employment.

[29] TCSG staff indicated that they do not consider the borrower's major when pulling eligibility, only GPA.

[30] Based on the requirement for a 3.5 GPA. An additional 2,800 borrowers from four-year institutions would have been eligible with a 3.0 GPA requirement.

consider consulting with the General Assembly regarding how addressing these recommendations would impact borrowers' debt obligation and/or GSFA's principal and interest collections.

1. If the intention is to relieve borrowers of their debt if they fulfill certain academic or employment criteria, GSFA should expand eligibility for loan discharge and/or service cancellation to include all borrowers, regardless of the type of institution they attend or credential they attain.

2. GSFA should provide examples of common occupations eligible for service cancellation, including public school teacher (regardless of STEM).

3. The General Assembly, in consultation with GSFA, should determine whether critical need occupations should be included in the service cancellation program. If not, the language should be removed from the program's purpose in the Appropriations Bill.

4. GSFA should consider changing its loan discharge GPA requirement to 3.0 and above to allow for a greater number of technical college graduates to benefit, as well as to ensure consistency with other state programs.

Agency Response: *"GSFA agrees that service cancellation is small relative to cash repayment. However, while the language in the appropriation bills references 'encourage public service work' it is very important to note that SAL is <u>not</u> a service-cancelable loan program. In service-cancelable loan programs, selection of borrowers is contingent on an up-front commitment by the borrower that they will enter employment/service in a specific field (as is the case with the GSFA engineer scholarship loan and the two military service scholarship loan programs). SAL has no such requirement for securing the loan. Loans are available to <u>all</u> qualified applicants, regardless of any interest in future public service."*

Recommendation 1: *"Should the General Assembly or Governor open policy discussions regarding service cancellation for SAL loans, GSFA would provide all data, impact analyses, and programmatic details associated with potential expansion of service fields. Should directives for the program be changed, GSFA would develop and implement program changes to comply with and support any directed service modifications."*

Recommendation 2: *"GSFA will review its documentation, websites, and correspondence to determine where and to what extent more detailed explanations and examples can be used to better inform borrowers so that all qualified individuals working in approved fields can best take advantage of this borrower benefit."*

Recommendation 3: *No comment.*

Recommendation 4: *"Should the General Assembly or Governor open policy discussions regarding expansion of loan discharge, GSFA would provide associated impact analyses. It is important to recognize that doing so would result in significantly less principal repayment for lending in subsequent years, and also result in significant reductions in administrative revenue."*

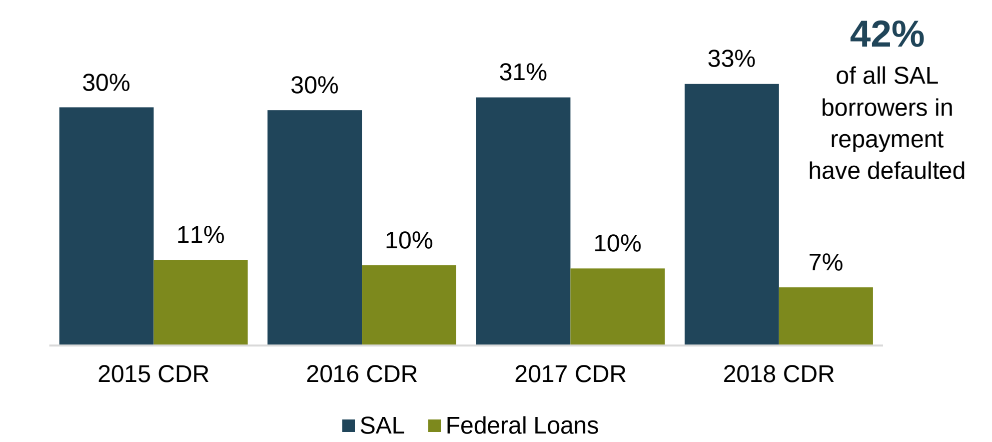
Finding 8: Nearly one-third of SAL borrowers default on their loans within three years, compared to 10% of federal borrowers.

On average, approximately 31% of SAL borrowers defaulted on their loans within three years of entering repayment, a rate more than three times higher than that of borrowers who receive federal student loans. Among all SAL borrowers who entered repayment prior to January 2020, approximately 42% had defaulted by the end of June 2021. The high default rate impacts GSFA's ability to generate cash flow for the program, and a defaulted status negatively impacts borrowers in several ways.

SAL borrowers are placed into default once they fail to make a payment after 270 days

As shown in **Exhibit 18**, SAL's cohort default rate[31] (CDR) among borrowers who entered repayment between fiscal years 2015 and 2018 has averaged 31%, increasing from about 29.6% to 32.9% over the past four years. By contrast, the federal CDR between fiscal years 2015 and 2017 has averaged 10%, or about a third of SAL's CDR each year. The rate is even higher when reviewing all borrowers who have been in repayment for at least a year (the minimum time to default)—approximately 42% of SAL borrowers[32] (9,183 of 21,829) have defaulted as of June 2021.

Exhibit 18
SAL Borrowers Default at a Higher Rate than Federal Borrowers



Source: GSFA, U.S. Department of Education, Pew Charitable Trusts

On average, SAL borrowers defaulted within 23 months of entering repayment, with the largest percentage defaulting in the 13th month. As shown in **Exhibit 19**, borrowers are significantly more likely to default early—approximately 55% defaulted within two years compared to 20% who defaulted within three years. Because SAL borrowers enter default after 270 days (nine months) of delinquency (i.e., making no or insufficient payments), many borrowers were at risk of default within their first year of repayment.

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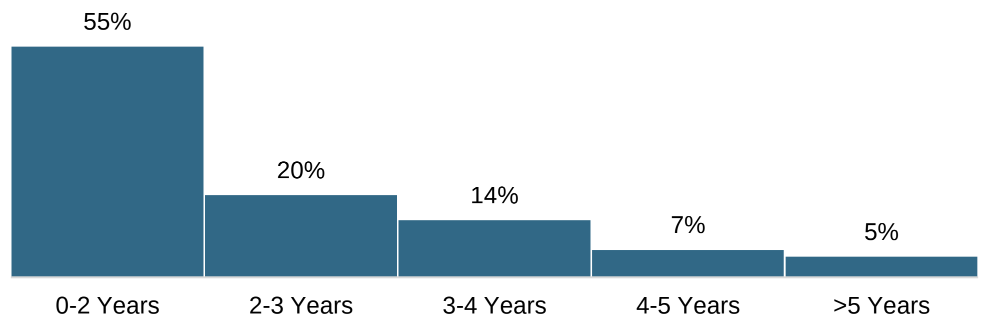
[31] Cohort default rate is a standardized metric used to calculate the percent of borrowers who entered repayment in the same year and defaulted within three years.

[32] We included borrowers who entered repayment up to and including 2019. We excluded borrowers who entered repayment in 2020 and 2021 due to not having sufficient time to default.

Exhibit 19
Borrowers Typically Default within Two Years of Repayment[1]



[1] These include borrowers who entered repayment between 2012 and 2016; defaulted borrowers who entered repayment since 2017 were excluded due to being in repayment for less than five years.

Source: GSFA

SAL's default rate means forgone cash flow for the program, which ultimately affects the GSFA's ability to move toward self-sufficiency (see page 19). The nearly 9,200 borrowers in default received approximately $60.9 million in loans, but only about $11.4 million (19%) in principal has been repaid (22% of borrowers paid nothing toward principal or interest). The $49.6 million—which represents nearly two years of SAL's state appropriations—will likely remain uncollected[33]. Very few borrowers in default rehabilitate[34] their loans or pay any balance after going to collections.

Defaulting also results in several negative consequences for borrowers, as shown in **Exhibit 20** and described below.

- **Increased Debt Obligation** – SAL's interest rate irrevocably increases to 5% upon default. As a result, all defaulted borrowers end up with significantly higher debt obligations that can be even more difficult to repay. For example, if a borrower owes $8,500, they would pay approximately $51 per month under a 1% interest rate, or approximately $9,200 over 15 years. With a 5% interest rate, this increases to $67 per month and a total payment of approximately $12,000.
- **Damaged Credit History** – GSFA reports delinquency and default to credit bureaus monthly, which can severely impact the borrower's credit score. Poor credit scores can impact borrowers in several ways. For example, borrowers may be prevented from obtaining any new lines of credit, such as a mortgage for a home or a car loan. Additionally, employers in certain industries perform credit checks on prospective employees, and low scores may impact their chances to receive a job offer.
- **Tax and Lottery Winnings Offset** – GSFA has the authority to sequester any lottery winnings or state income tax refunds from defaulted borrowers to help

[33] GSFA accounts for uncollected repayments by setting aside bad debt reserves, which considers SAL's historical default trend and its current default percentage. Bad debt moves on GSFA's balance sheet from principal—what is owed to GSFA as repayment after interest is capitalized (interest that accrues during non-payment that is incorporated into the principal)—to reserve since it may not be collected. The reserve amount decreases when actual payments are made by borrowers.

[34] GSFA allows defaulted borrowers to rehabilitate their loans' default status through signing a rehabilitation agreement and making nine consecutive monthly payments.

pay off their defaulted loans. Between fiscal years 2016 and 2021, GSFA has sequestered approximately $1.6 million in state income tax refunds from defaulted SAL borrowers (an estimated $349 per borrower).

- **Forgoing Further Education** – Because GSFA prohibits borrowers in default from receiving additional disbursements, borrowers would have to search elsewhere for assistance in paying their cost of attendance. However, because SAL is a payer of last resort, most SAL borrowers in repayment likely already received the cumulative maximum federal loan and grant amounts, as well as state scholarships and grants. Additionally, private lenders would be unlikely to approve loans for defaulted SAL borrowers due to their damaged credit history.

Exhibit 20
SAL Borrowers Face Several Consequences of Defaulting

Source: GSFA Regulations and Pew Trusts

As discussed in subsequent findings, there are many reasons SAL borrowers may default at higher rates than other loan programs. Finding 9 identifies several borrower characteristics that increase the likelihood of default, while Finding 10 (page 38) identifies some provisions within SAL that may contribute to certain borrowers defaulting at high rates.

Agency Response: *GSFA stated that "all loan programs (public and private) would prefer minimal defaults;" however, private lenders take steps to minimize defaults by excluding individuals who may have difficulties repaying their loans (e.g., credit checks, cosigners). GSFA noted in contrast, "SAL's purpose is to provide assistance to individuals in completing their postsecondary education. To that end, the primary criterion for qualifying for the loan is that the individual demonstrates certified unmet need in covering costs of their enrollment in a qualifying Georgia institution. Loan applicants who are already in default on a student loan are disqualified up front. GSFA goes to great lengths to work with borrowers to help them avoid default."*

Finding 9: Certain borrower characteristics likely increase the default rate.

Several borrower characteristics—including institution type and financial situation—appear to increase the chances that a borrower will default on their SAL loans. We also found that those who obtain a postsecondary credential are less likely to default, and those in good standing earn higher annual wages. As previously discussed, any adjustments to the borrower population to decrease the default rate would likely adversely impact borrowers who may need the assistance the most.

Recognizing its relatively high default rate[35] (see prior finding), GSFA contracted with a private firm in 2017 to determine whether certain borrower characteristics impacted the likelihood of default, which could inform changes in program criteria. The firm noted that certain characteristics at the loan originations phase—such as institution type and Pell Grant eligibility—notably impacted the default rate. However, it concluded there was no "silver bullet" characteristic that could reduce the rate without also impacting the approval of "good loans" that are repaid.

We reviewed several characteristics of borrowers who entered repayment between calendar year 2012 and December 2019 to determine the percent who had defaulted versus remained in good standing by June 2021.[36] We also examined the extent to which borrower wages in the first three years of repayment impact the likelihood of default. Areas reviewed are discussed below.

- **Institution Type** – TCSG and private for-profit borrowers are more likely to default than USG and private nonprofit borrowers. Approximately 56% and 48% of private for-profit and TCSG borrowers have defaulted, respectively, compared to 37% of USG and private nonprofit borrowers.

  It should be noted that the number of for-profit borrowers has decreased by approximately 60% since SAL's inception. In fiscal year 2021 only 90 borrowers were from private for-profit schools (2% of the total).

Private For-Profit and TCSG Borrowers Most Likely to Default

Private For-Profit: 56%
TCSG: 48%
Private Nonprofit: 37%
USG: 37%

- **Dependency Status and Pell Eligibility** – Borrowers who are eligible for the federal Pell Grant (a metric of financial need) and financially independent (i.e., assessed for financial aid based on their ability to pay rather than their family's) are most at risk for default. Pell eligibility is the more significant risk factor—more than 40% of

Pell Recipients are Most Likely to Default

Independent, Pell: 45%
Dependent, Pell: 40%
Independent, No Pell: 24%
Dependent, No Pell: 21%

[35] The percentage of borrowers in repayment who have defaulted. A default rate can be calculated among all borrowers in repayment or calculated using certain cohorts, such as among borrowers who entered repayment in a specific year.

[36] Our results generally concurred with the GSFA consultant's findings when they examined similar characteristics. Differences—primarily related to dependency status and forbearance—are likely due to the timing of review. The consultant analyzed those who had entered repayment prior to its review in 2017, while our review encompassed repayment data through June 2021 among those who entered in repayment through December 2019.

Pell-eligible borrowers have defaulted regardless of their dependency status.

Since SAL's inception, most borrowers have been eligible for Pell, though the percentage has decreased slightly from 80% to 72% since fiscal year 2015. The percentage of independent Pell recipients has been decreasing over time, from approximately 59% in fiscal year 2012 to 26% in 2021 (primarily driven by the decrease among private nonprofit and USG borrowers). However, financially dependent Pell recipients increased from 20% in 2012 to 47% in 2021.

- **HOPE and Zell Miller Recipients** – Borrowers in four-year institutions receiving the HOPE or Zell Miller Scholarship[37] were significantly less likely to default—less than 20% of HOPE recipients defaulted compared to 35% of borrowers with no aid. GSFA's consultant stated that HOPE and Zell Miller recipients may be less likely to default due to the programs' merit-based standards, which may influence borrowers' academic accomplishments and better ensure an ability to repay their loans. As a result, it recommended that GSFA consider implementing academic standards in SAL.

Four-Year Borrowers

Non-Aid Recipients Most Likely to Default

No HOPE or Zell Miller Aid: 35%
HOPE Scholarship: 19%
Zell Miller Scholarship: 5%

The positive impact of HOPE participation is not apparent among TCSG borrowers. Approximately 52% of TCSG borrowers who received the HOPE Grant have defaulted, compared to 37% for those who received no aid. However, Zell Miller and HOPE Career Grant recipients defaulted at significantly lower rates. It should be noted that the HOPE Grant has less stringent academic requirements (2.0 GPA compared to 3.0 for the HOPE Scholarship), so any academic impact may be lessened for this population.

TCSG Borrowers

HOPE Grant Recipients Most Likely to Default

Hope Grant: 52%
No HOPE or Zell Miller Aid: 37%
Zell Miller Grant: 28%
HOPE Career Grant: 28%

- **Persistence and Credential Attainment** – Borrowers who obtained a postsecondary credential[38] had a lower risk of defaulting than borrowers who left school without a credential. Nearly one-third of borrowers who received a credential defaulted, compared to approximately 56% of borrowers who did not obtain a credential.

Borrowers Who Earn an Award Less Likely to Default

No Award: 56%
Award: 32%

GSFA's consultant found that obtaining a bachelor's degree decreased the likelihood of default by approximately 12%, while an associate degree decreased by 9%. It also found that the likelihood of defaulting increased by

[37] Because HOPE or Zell Miller program recipients may lose eligibility, we only included aid recipients who received SAL in the same fiscal year. Additionally, private for-profit borrowers were excluded because GA AWARDS did not have sufficient representation.

[38] Postsecondary credentials include degrees or diplomas (e.g., bachelor's or associate degree) as well as industry-recognized certificates or certifications.

3% for every year students left earlier than anticipated and that those who took out loans in later years defaulted 2% less for each additional year completed. As such, the consultant recommended that GSFA consider implementing incentives to persist, such as offering higher loan limits for each additional year completed.

- **Deferments and Forbearances** – Approximately 45% of borrowers who never received a deferment or forbearance have defaulted, compared to only 27% who received a deferment[39] and 30% who received a deferment and a forbearance. However, it appears that receiving a forbearance does not decrease a borrower's chances of defaulting; these borrowers defaulted at the same rate as those who received no repayment relief. Unlike deferments, forbearances incur interest that is capitalized (i.e., added to the principal), which always leads to a higher monthly payment once a borrower recommences payments. For example, borrowers who go into forbearance for 24 months (the maximum allowed) on an $8,000 loan would incur approximately $162 in capitalized interest as a result of the forbearance.

  In addition, unlike deferments, which have established eligibility criteria, GSFA generally grants forbearance requests from borrowers without requiring any supporting documentation of an economic hardship. This may lead to some borrowers who simply want to delay repayment to request forbearances, which only increases their debt obligation in the long run.

Deferment Recipients Least Likely to Default

Forbearance: 46%
No Repayment Relief: 45%
Both Relief Types: 30%
Deferment[1]: 27%

[1] Includes Unemployment Deferment and Economic Hardship Deferment.

- **Income** – On average, annual wages of borrowers in default were approximately 40% less than those who remained in good standing in the first three years of repayment.[40] Among borrowers who entered repayment in 2017, for example, those who defaulted earned approximately $15,000 per year, compared to approximately $21,000 among those who remained in good standing. The difference varies by institution type—TCSG borrowers in good standing only earned 16% more than those in default, while USG borrowers in good standing earned 63% more.

  It should be noted that approximately 11% of the borrowers in our review were in repayment but received in-school deferments for a portion of the three years reviewed. These borrowers may be less likely to work full-time jobs, which would impact average wages. All but one borrower was identified as remaining in good standing.

Incomes of Borrowers in Good Standing Are Higher

Good Standing: $21,000
Defaulted: $15,000

[39] GSFA offers borrowers Unemployment and Economic Hardship Deferments, which had default rates of 27% and 23%, respectively. For simplicity, we combined them in this finding.

[40] Based on a review of borrowers who entered repayment in calendar year 2017. We conducted a similar analysis for borrowers who entered repayment in 2015 and 2016 and found similar results. Borrowers were categorized as in default and in good standing based on their status after three years.

In addition to certain borrower characteristics, specific provisions of SAL likely attract borrowers with higher chances of defaulting. For example, GSFA's consultant observed that SAL does not require a cosigner, which most loan programs require to improve the credit strength of the loan and ensure repayment. In addition, because SAL is a loan of last resort, many borrowers likely hold a significant amount of federal debt, which can impact their ability to repay their SAL.

It should be noted that enacting measures to decrease SAL's default rate is likely to come at the expense of restricting the population eligible to apply for the loan. For example, instituting a minimum credit score requirement or requiring a cosigner (as other state loan programs have done) would limit students with significant financial need from receiving a SAL. Because SAL is a loan of last resort for borrowers, this could lead to a funding gap that prevents many students from attending school. However, SAL in its current form lends to many borrowers who are unlikely to be able to pay their loans back, which will continue to worsen the program's long-term sustainability (see finding on page 19).

RECOMMENDATIONS

Any formally defined goals and priorities (as recommended in Finding 1) will impact action related to these recommendations. Absent legislative action, GSFA should consider consulting with the General Assembly regarding how addressing these recommendations would impact potential borrowers' access to the loan.

1. If it is determined that decreasing the default rate is a higher priority, GSFA should continue evaluating the characteristics of defaulted individuals and assess its eligibility criteria if certain populations prove less likely to pay.

2. GSFA should assess its practice of permitting forbearances upon request rather than using documented criteria.

3. If it is determined that decreasing the default rate is a higher priority, GSFA should consider testing the recommendations put forth by the education consultant, including implementing academic standards (e.g., GPA threshold) or using cosigners for all borrowers or those who meet certain characteristics.

Agency Response: *"GSFA agrees that there may be correlational variables among defaulted SAL borrowers, but GSFA does not use these factors to selectively deny applicants, given that SAL's stated purpose is to support postsecondary attainment…and [it] is not identified as a self-sustaining program." GSFA stated if such factors were used to deny applicants, default rates may lower, but "at the expense of denying the very population of students SAL was intended to support."*

Recommendation 1: *"If directed to restrict borrowers beyond current criteria as a means of lowering default rates, GSFA would modify regulations, procedures, and applications to comply."*

Recommendation 2: *"GSFA will review its forbearance practices and procedures and will modify them as needed. Such periodic reviews are part of GSFA's continual improvement process for identifying ways to better serve Georgia students."*

Recommendation 3: *"If directed to implement additional default management measures at the point of determining eligibility, GSFA would modify the selection criteria accordingly."*

Finding 10: While SAL offers borrowers beneficial repayment terms compared to other loan programs, SAL's $50 minimum monthly payment may contribute to delinquency and default.

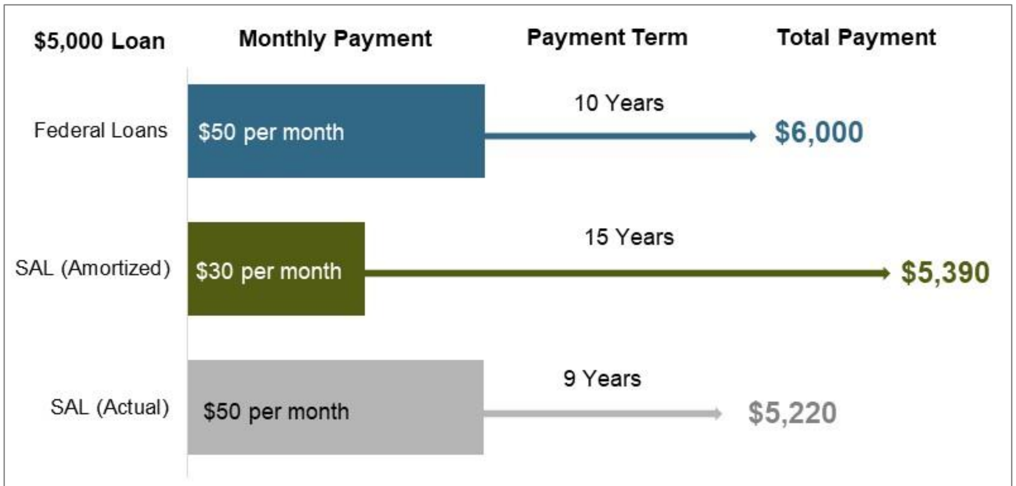
Approximately 42% of SAL borrowers have defaulted

SAL's repayment terms are similar to or more advantageous to borrowers than those in other loan programs. However, GSFA requires borrowers to pay at least $50 each month, which may be overly burdensome—particularly for TCSG borrowers. The higher monthly payments may increase the likelihood of delinquency and default, particularly because unlike federal and other state programs, GSFA does not allow SAL borrowers to reduce their minimum monthly payments based on their income.

SAL's repayment terms are generally more advantageous to borrowers than federal and other states' loan programs. For example, SAL's 1% interest rate is lower than the rates for the federal loan program and all but one state.[41] Additionally SAL has a 15-year repayment term, compared to 10 years for federal borrowers[42] and 10 to 20 years for other states. As shown in **Exhibit 21**, SAL's terms result in lower amortized monthly payments, as well as a lower total payment.

However, regardless of what monthly payment is amortized under these terms, since fiscal year 2015, SAL has required all borrowers to pay at least $50 per month (similar to federal and other state loan programs). All payments above a borrower's amortized amount count toward principal, which ultimately decreases the time to pay off the loan and lowers the borrower's total debt obligation (see **Exhibit 21**).

Exhibit 21
SAL's Amortized Monthly Payment is Lower than the Federal Loan Program, but Both Set the Minimum Payment at $50



Source: Calculations based on federal interest rate of 3.75% and SAL interest rate of 1%

*SAL borrowers who owe less than **$8,300** must pay more due to minimum payment requirements*

With 1% interest rate and a 15-year repayment term, anyone with a total debt obligation of less than $8,300 has a higher monthly payment than would be necessary under the amortization schedule. This impacts a significant number of borrowers—of the 13,300 who began participating in SAL in 2016 and have entered repayment,

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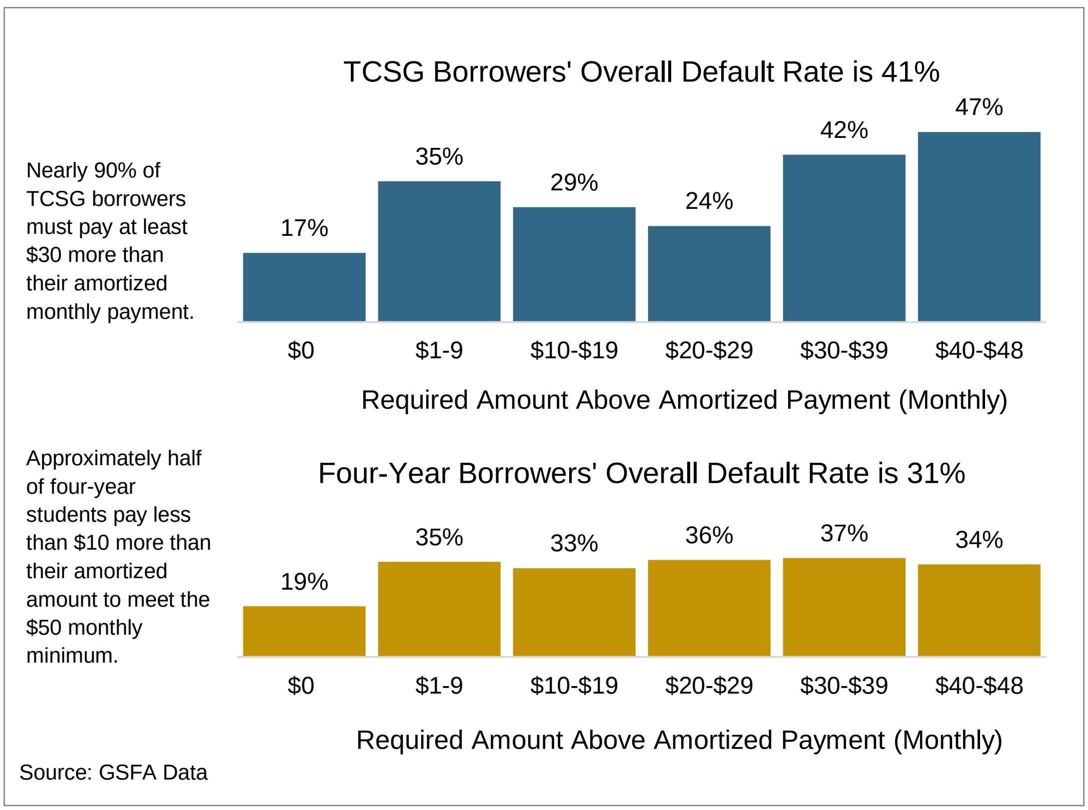
[41] The most recent interest rate for federal borrowers is 3.75%. Massachusetts offers a 0% interest rate, while the other five states range from 3.75% to 8.5%.

[42] Federal borrowers with at least $30,000 in loans can enroll in a 25-year Extended Repayment Plan.

approximately 80% (10,400) owe on average approximately $22 more than their terms require. TCSG borrowers are more likely to be impacted due to their lower debt obligation.[43] Approximately 86% of TCSG borrowers must pay at least $30 more than they otherwise would, compared to only 13% of four-year borrowers.

The increased monthly obligation appears to contribute to borrowers' chance of defaulting on their loans. GSFA staff stated that with the minimum payment requirement in place, any payment below $50 would put a borrower into delinquency and then—after nine months of insufficient payment—into default. As shown in **Exhibit 22**, the higher monthly payment significantly increases TCSG borrowers' likelihood of default; for example, 47% of borrowers paying at least $40 more have defaulted compared to 24% among those paying less than $10 more. By contrast, the increased payment does not appear to significantly impact four-year borrowers. It should be noted that among those who went into default, approximately 10% made payments that would have been sufficient under their amortized plan—but were less than $50—for at least three months.

Exhibit 22
TCSG Borrowers Impacted by the $50 Minimum Default at a Higher Rate



As described in the finding on page 31, SAL's default rate is significantly higher than the federal loan rate despite having similar or more lenient standard terms. One reason for this may be the flexibility the federal government allows if a student is financially unable to make the $50 minimum payment. For example, federal borrowers may

[43] TCSG borrowers typically attend technical college for only two years and are limited to $3,000 in annual SAL disbursements. This results in an average debt of $3,800 for TCSG borrowers, compared to $9,200 among four-year borrowers.

qualify for multiple repayment plan options, including plans that lower a borrower's monthly payment to a percentage of their disposable income. By contrast, while SAL has allowances for borrowers to temporarily stop payments (see discussion on page 6), it does not have other repayment plans for those who wish to keep making payments but cannot manage the $50.

According to GSFA, a required minimum payment helps reduce administrative burden that results from low monthly payments (for example, a borrower who took one minimum loan of $300 would only pay $2 per month for 15 years). Between fiscal years 2012 and 2014 GSFA imposed a minimum payment of $15, which corresponds to a debt obligation of approximately $2,500. Only 14% of recent borrowers (and 32% of TCSG borrowers) owe less than $2,500, and with a $15 minimum they would only be required to pay an average of $5 more.

RECOMMENDATIONS:

1. GSFA should consider lowering its minimum monthly payment, particularly for TCSG borrowers who often have lower loan balances.

2. If the minimum monthly payment is not decreased, GSFA should consider implementing a payment plan that adjusts monthly payments based on borrowers' ability to pay.

3. If a borrower pays less than $50 prior to entering default, GSFA should consider the extent to which the payment adheres to a 15-year amortized repayment schedule prior to categorizing the borrower as delinquent.

Agency Response: *"GSFA agrees that SAL offers very beneficial repayment terms. GSFA does not agree that the $50 minimum monthly payment creates a higher default risk" given that DOAA identified "other borrower characteristics correlated with default. Many of these are strongly associated with the population of students served by TCSG" including independent status and HOPE grant recipients. GSFA stated that "as such, the $50 minimum payment does not independently necessitate a higher default risk."*

> ***Auditor Response***: *Higher monthly payments due to the $50 minimum are also strongly associated with TCSG borrowers. As described in the finding, approximately 90% of TCSG borrowers must pay at least $30 more per month to meet the $50 minimum. As shown in Exhibit 22, these TCSG borrowers are more likely to default, and given their prominence in the population likely drive the higher default rate among TCSG borrowers overall. As such, it is likely that the $50 requirement at the very least contributes to the higher default rate in addition to factors discussed elsewhere in the report.*

Recommendation 1: *"GSFA may review data relevant to minimum monthly payments and will consider lowering the monthly minimum payments as appropriate."*

Recommendation 2: *"As a part of its review of data relevant to minimum monthly payments, GSFA may also review adjustable monthly payments."*

Recommendation 3: *"As a part of its review of data relevant to minimum monthly payments, GSFA may also review partial payments."*

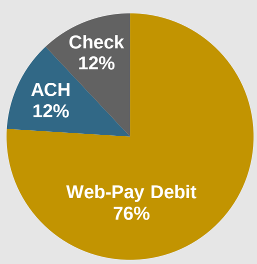
Finding 11: Improvements could be made to increase the likelihood that borrowers will make their monthly payments.

GSFA frequently informs borrowers of their loan obligations and reminds them of payments due; however, the high default rate previously discussed suggests that additional approaches should be considered to increase borrower repayment. Additionally, GSFA does not use all methods available to force payments from those who have already defaulted, though it is unlikely that penalizing these borrowers would recoup significant sums of money.

GSFA has developed a robust communication strategy to ensure borrowers are aware of their repayment obligations and reminded to make their monthly payments to avoid delinquency. GSFA corresponds with borrowers at various stages; for example, all borrowers receive a welcome packet informing them of their obligations when they are approved for a loan and a repayment disclosure notice when they enter repayment (these include information such as their monthly payment schedule and amounts). Additionally, GSFA sends monthly repayment reminders and more urgent notices (as well as phone call attempts) when the borrower becomes delinquent.

Despite these efforts, however, SAL has a relatively high overall default rate of 42% and on average recovers about 40% of its expected repayments each year (see pages 20 & 31). This indicates GSFA could be doing more to ensure borrowers are aware of and can fulfill their repayment obligations (thus avoiding default). For example:

Only 12% of Borrowers Use ACH



- **ACH payments are underutilized** – In addition to preauthorized debit and check payments, GSFA allows borrowers to pay their loans through automated clearing house (ACH), which is recognized as a best practice for loan repayment because it automatically draws from a borrower's bank account and requires no monthly action. However, few borrowers utilize ACH—in June 2021, for example, only approximately 12% of SAL payments came via ACH, while over 76% of payments were made via web-pay debit (which requires logging in to the website).

  GSFA mentions ACH as an option in some borrower correspondence but does not highlight it as preferred over other methods. By contrast, Alaska, Texas and the federal loan program encourage their borrowers to utilize ACH by reducing participants' interest rates by 0.25%.

- **GSFA does not text borrowers but is exploring the option** – GSFA primarily relies on email and traditional mail to communicate with borrowers. However, according to college staff we interviewed, even frequent email is not a reliable method of communicating with current or former students. This is because the message may get lost in students' inboxes or students may change their email addresses after graduation. Borrowers using their school-affiliated email addresses (.edu) may be at particular risk; college staff indicated these addresses are typically purged after a student leaves.

  Some college staff indicated they have incorporated texting into their communication strategy. While GSFA has not sent text messages to borrowers' mobile phones regarding their loans, staff indicated texting is being explored as an additional form of communication. GSFA could also remind students to update their email and home addresses by including language in borrower letters, particularly when they are entering repayment.

- **GSFA correspondence lacks certain information** – GSFA's written correspondence sufficiently informs borrowers of the reasons GSFA is contacting them, but the letters lack some borrower-specific information. For example, GSFA does not specify the amount a borrower must pay to avoid default in its delinquency notices, instead indicating that the borrower should visit their online payment portal or contact GSFA (which requires additional action for those paying via check). Additionally, letters to defaulted borrowers do not specify the terms of rehabilitation in letters, which would inform them of how they can return to a status of good standing.

- **GSFA does not require schools to contact borrowers** – GSFA does not include in its regulations any requirements for institutions to inform borrowers of their repayment obligations. Schools have multiple opportunities to communicate with borrowers and may be in a better position than GSFA to encourage repayment—particularly while the borrower is enrolled. For example:

    - GSFA sends schools monthly reports regarding students' monthly Keep in Touch (KIT) payments; however, schools are not required to to contact those who have not paid the $10 per month (and thus may be more at risk for later delinquency and default).

    - Schools are not required to discuss upcoming repayment obligations with borrowers upon graduation. By contrast, Massachusetts requires schools to provide mandatory exit counseling to graudates, which staff indicates assists with reducing default.

  It should be noted that GSFA does require participating schools to maintain a cohort default rate below a certain threshold based on their number of borrowers. Schools with high rates must submit Default Management Plans that often include increased communication with borrowers regarding KIT payments and exit counseling. However, most schools—which could have hundreds of former students in default even with a sufficient default rate, particularly among schools with high SAL participation—can determine how they communicate with borrowers (if at all).

Once a borrower defaults, GSFA outsources all contact efforts to a private collections company[44] that uses additional tools to attempt to contact borrowers. Because GSFA only pays the company based on borrower repayments, the company has an incentive to motivate borrowers to repay their loans. However, efforts have resulted in few successes—only approximately 6% of borrowers have rehabilitated after default.

In addition to the contractor's efforts, GSFA has the authority to implement other methods to recoup funds from defaulted borrowers. These largely mirror those of other states and the federal loan program; however, unlike other states GSFA has not utilized most of them (see **Exhibit 23**). For example, staff in all other states report using court action such as liens or judgements against borrowers and requiring defaulted borrowers to pay collections fees. GSFA has not acted against borrowers in similar ways or garnished wages from defaulted borrowers (slightly less common in other states). Finally, while it has offset tax refunds, GSFA postponed the process

[44] Since SAL's inception, GSFA has contracted with Premiere Credit as its third-party collections company. It should be noted that GSFA's contract with Premiere Credit expires at the end of November 2021, and GSFA has initiated a request for proposal for a new contract, which has yet to be finalized.

during fiscal year 2021 due to the COVID-19 pandemic, though staff indicated they may resume offsets in fiscal year 2022.

Exhibit 23
Other Loan Programs Use More Repayment Methods than SAL

Default Consequences	GA	AK	HI	MA	MN	NJ	TX	Federal
Tax refund, lottery winning, or other funds offset	●	●	○	●	●	●	●	●
Garnishment of wages or checking account	○	●	○	○	○	●	●	●
Liens, judgments, or possible court action	○	●	●	●	●	●	●	●
Collection fees borne by borrower	○	●	●	●	●	●	●	●

Source: Interviews with GSFA and other states' staff

It should be noted that even if GSFA increased penalties for defaulted borrowers, doing so may fail to recoup significant amounts of outstanding debt to warrant what GSFA staff indicated would be increased administrative costs. For example, GSFA has only collected approximately $1.6 million in tax refunds since 2016 (or $349 per borrower). Additionally, GSFA staff noted that such practices could significantly impact defaulted borrowers who may already have financial difficulty, which may not be desirable for a state program.

RECOMMENDATIONS:

1. GSFA should promote automatic monthly payments through ACH as the preferred method of repayment and consider offering incentives for participants.

2. GSFA should continue to research the feasibility of incorporating text messages into its methods of communication.

3. GSFA should include language reminding students to update their contact information in all correspondence.

4. GSFA should consider including more borrower-specific information in its correspondence (e.g., amount to return to good standing) when borrowers are in delinquency or in default.

5. GSFA should work with schools to develop procedures to contact borrowers who are delinquent on their KIT Payments. GSFA should also encourage or require schools to discuss repayment obligations with soon-to-be graduates (and remind them to update their email addresses).

Agency Response: *"GSFA agrees that it is in everyone's best interest for borrowers in repayment to stay in good standing (paying on time and not becoming delinquent or in default). GSFA agrees that we should continue our efforts to work with borrowers to help them keep current on their monthly payments and to improve those efforts in an ongoing fashion. We do not agree that SAL default rates are in any way indicative of inadequate communication on GSFA's part."*

> ***Auditor Response:*** *As noted above, we believe GSFA has a robust communication strategy. We did not find it to be inadequate. However, we believe investigating texting*

capabilities and reviewing information provided to borrowers are additional communication strategies that may help ensure borrowers make timely monthly payments. Similarly, increased participation in ACH—which is also listed as an additional strategy—would simplify the process and thus ensure more consistent payments.

Recommendation 1: *GSFA agreed that "setting up an automatic monthly payment process can definitely be beneficial to borrowers" and it "can review methods of promoting ACH use." GSFA noted that the ACH described in the finding is only one method for automatic payment, and borrowers can choose other services for automated payments, such as online monthly bill pay services that do not require GSFA to have direct access to the borrower's bank account. GSFA stated it does not know the extent to which this option is used.*

Recommendation 2: *"As noted in the report, GSFA has already begun using texting for other outreach and communication efforts. GSFA is refining this strategy and is looking to incorporate it in other areas. The applicability and appropriateness of texting use regarding the SAL program will be reviewed."*

Recommendation 3: *"In documents and correspondence throughout the lifecycle of the loan, borrowers are reminded of the critical importance of maintaining current updated contact information. GSFA can review to identify if any other avenues are available."*

Recommendation 4: *"Correspondence may be reviewed, and changes made where appropriate."*

Recommendation 5: *"To remain eligible for program participation, institutions must maintain cohort default rates that meet SAL program regulation requirements. Different institutions employ various methods to manage this. GSFA could examine such measures and share promising practices."*

Finding 12: GSFA's reliance on institutions has not resulted in significant risk to ensuring applicant eligibility.

GSFA does not independently verify applicant information to ensure they qualify for a loan. Rather, GSFA generally relies on institutions' certification that applicants meet requirements in accordance with its participation agreement. While GSFA does not incur significant risk, additional information points may increase transparency in the certification process.

GSFA's participation agreement with institutions (which covers SAL as well as HOPE programs) states that each institution will "[determine] the eligibility of the recipients" based on program regulations. For SAL, this includes certifying various areas of eligibility, including that the student is enrolled in enough hours, that SAL is the payer of last resort, and that the student has unmet financial need. SAL's regulations also indicate that GSFA will conduct compliance reviews to assess compliance with regulations, though GSFA staff indicated this is not currently in practice due to limited resources.

We reviewed each primary eligibility area and did not identify significant issues resulting from GSFA's reliance on institutions, as described below.

- **Eligible Enrollment** – Because one loan may be divided into multiple disbursements (e.g., fall and spring) within an academic year, GSFA requires schools to certify enrollment for each relevant term. If the student's enrollment falls below part-time, schools must notify GSFA and return the disbursed amount. Though GSFA relies solely on the schools to perform these checks, we did not identify a significant number of disbursements that remained with the school or student despite insufficient enrollment.

- **Payer of Last Resort** – Because SAL is meant to be the payer of last resort, GSFA requires schools to certify that the applicant has exhausted all forms of state and institutional aid, which—for four-year students—includes federal loans. Nearly 90% of USG borrowers and a majority (73%) of private nonprofit borrowers had a federal loan in the year they obtained the loan. According to private nonprofit college staff we interviewed, students who did not have a corresponding federal loan had likely already obtained the maximum amount permitted. Additionally, nearly all eligible private students we analyzed had also obtained a Tuition Equalization Grant, a state grant that assists private school students with their tuition.

- **Cost of Attendance** – GSFA does not provide guidance or standard rules regarding how to calculate a student's cost of attendance (COA); rather, it relies on the schools to use the COA reported for federal loans.[45] This is not unreasonable, and our review of 15 prominent institutions' COA showed nearly all students fell within the institution's part-time to full-time range.

  However, it should be noted that COA can vary significantly across and even within institutions, and a high COA without the corresponding aid and family contribution means the student will take out a higher loan—even with maximum loan amounts in place. This means larger debt obligation for the borrower as well as less money available to other applicants. While some costs are static (e.g., tuition and fees), other COA elements vary based on the student's circumstances (e.g., off-campus housing, miscellaneous). As such, institutions may have some latitude to adjust the COA in conjunction with an individual student's situation. Given the high default rates—particularly at some institutions—it may benefit borrowers if institutions were encouraged to work with the student to ensure they are not borrowing more than they need (particularly if the student already has federal loans).

While our tests did not reveal any substantial control risks, GSFA's reliance on the institutions—and lack of compliance reviews—could present risks in the future. GSFA could increase program transparency by collecting additional information from the school (e.g., confirmation of federal loans, number of enrollment hours certified). GSFA could also incorporate SAL into its auditing procedures related to the HOPE scholarship program so schools are aware their records could be reviewed.

RECOMMENDATIONS:

1. GSFA should consider requesting additional data fields from institutions as they certify borrowers' eligibility—such as number of enrolled hours and confirmation of federal loans.

[45] Federal loan COA includes tuition, fees, room and board, books, meals, transportation, and miscellaneous expenses.

2. GSFA should consider reviewing the enrollment information it receives from the National Student Clearinghouse to identify any disbursements that may need to be reimbursed based on enrollment changes.

3. GSFA should consider performing targeted compliance reviews to ensure institutions are administering the program according to regulations. This could be based on the number of students participating or a higher than average default rate.

Agency Response: *GSFA agreed with the finding.*

Recommendation 1: *"GSFA recognizes the importance of collecting and maintaining sufficient data and documentation to ensure the effective administration of the program. GSFA could consider including the other data fields."*

Recommendation 2: *"Building such an automated process could be considered but given the finding that current procedures have not resulted in significant risk, implementing such a procedure must be evaluated to determine benefit."*

Recommendation 3: *"GSFA agrees that compliance reviews may ensure proper adherence to program regulations. Staffing and resource limitations are such that GSFA is not currently in a position to implement an expansion of its compliance review activities for these purposes."*

Appendix A: Table of Recommendations

Finding 1: In operating the SAL program, GSFA has to balance the intention to assist borrowers in financial need with the loan's requirement for repayment. (p. 11)
1. The General Assembly—in consultation with GSFA—should establish SAL's intent and define the program's goals and priorities. GSFA should consider this as it addresses recommendations in this report or considers future changes to the program.
Finding 2: SAL is not a statutorily codified program; as a result, GSFA is left to interpret legislative intent. (p. 13)
2. The General Assembly should consider codifying SAL in statute if it wishes to have more oversight over the terms by which the loan is distributed and repaid.
3. GSFA should assess SAL's terms—particularly its interest rate—to determine whether any are detrimental to borrowers overall or within a particular population.
Finding 3: Georgia is one of few states that offer loans for need-based financial aid, which is usually achieved with grants and scholarships. (p. 16)
No Recommendations
Finding 4: While SAL's receipts pay for administrative expenses and supplement state appropriations for loans, the program must rely on state funds to meet loan demands. (p. 19)
4. The General Assembly should determine and communicate the extent to which it expects to continue dedicating $26 million in lottery funds to SAL.
5. Should the General Assembly determine that state appropriations will decrease at a specified time, GSFA should develop a plan to move SAL toward a necessary level of self-sufficiency.
Finding 5: The makeup of SAL borrowers has not changed over time, with the exception of the decline among TCSG students. (p. 22)
No Recommendations
Finding 6: While SAL borrowers generally persist to the next academic year, fewer obtain an award. (p. 24)
Any formally defined goals and priorities (as recommended in Finding 1) will impact action related to these recommendations. Absent legislative action, GSFA should consider consulting with the General Assembly regarding how addressing these recommendations would impact potential borrowers' access to the loan or their debt obligation.
6. If award achievement continues to be a metric of SAL's effectiveness, GSFA should consider incorporating the goal in its program design.
7. If award achievement continues to be a metric of SAL's effectiveness, GSFA should collect data from the National Student Clearinghouse to track award and persistence outcomes of SAL borrowers. Analyses on persistence and award rates could be performed in-house or by an outside entity.
Finding 7: Few borrowers have benefited from service cancellation and loan discharge. (p. 27)
Any formally defined goals and priorities (as recommended in Finding 1) will impact action related to these recommendations. Absent legislative action, GSFA should consider consulting with the General Assembly regarding how addressing these recommendations would impact borrowers' debt obligation and/or GSFA's principal and interest collections.
8. If the intention is to relieve borrowers of their debt if they fulfill certain academic or employment criteria, GSFA should expand eligibility for loan discharge and/or service cancellation to include all borrowers, regardless of the type of institution they attend or credential they attain.
9. GSFA should provide examples of common occupations eligible for service cancellation, including public school teacher (regardless of STEM).

10. The General Assembly, in consultation with GSFA, should determine whether critical need occupations should be included in the service cancellation program. If not, the language should be removed from the program's purpose in the Appropriations Bill.
11. GSFA should consider changing its loan discharge GPA requirement to 3.0 and above to allow for a greater number of technical college graduates to benefit, as well as to ensure consistency with other state programs.
Finding 8: Nearly one-third of SAL borrowers default on their loans within three years, compared to 10% of federal borrowers. (p. 31)
No Recommendations
Finding 9: Certain borrower characteristics likely increase the default rate. (p. 34)
Any formally defined goals and priorities (as recommended in Finding 1) will impact action related to these recommendations. Absent legislative action, GSFA should consider consulting with the General Assembly regarding how addressing these recommendations would impact potential borrowers' access to the loan.
12. If it is determined that decreasing the default rate is a higher priority, GSFA should continue evaluating the characteristics of defaulted individuals and assess its eligibility criteria if certain populations prove less likely to pay.
13. GSFA should assess its practice of permitting forbearances upon request rather than using documented criteria.
14. If it is determined that decreasing the default rate is a higher priority, GSFA should consider testing recommendations put forth by the education consultant, including implementing academic standards (e.g., GPA threshold) or using cosigners for all borrowers or those who meet certain characteristics.
Finding 10: While SAL offers borrowers beneficial repayment terms compared to other loan programs, SAL's $50 minimum monthly payment may contribute to delinquency and default. (p. 38)
15. GSFA should consider lowering its minimum monthly payment, particularly for TCSG borrowers who often have lower loan balances.
16. If the minimum monthly payment is not decreased, GSFA should consider implementing a payment plan that adjusts monthly payments based on borrowers' ability to pay.
17. If a borrower pays less than $50 prior to entering default, GSFA should consider the extent to which the payment adheres to a 15-year amortized repayment schedule prior to categorizing the borrower as delinquent.
Finding 11: Improvements could be made to increase the likelihood that borrowers will make their monthly payments. (p. 41)
18. GSFA should promote automatic monthly payments through ACH as the preferred method of repayment and consider offering incentives for participants.
19. GSFA should continue to research the feasibility of incorporating text messages into its methods of communication.
20. GSFA should include language reminding students to update their contact information in all correspondence.
21. GSFA should consider including more borrower-specific information in its correspondence (e.g., amount to return to good standing) when borrowers are in delinquency or in default.
22. GSFA should work with schools to develop procedures to contact borrowers who are delinquent on their KIT Payments. GSFA should also encourage or require schools to discuss repayment obligations with soon-to-be graduates (and remind them to update their email addresses).
Finding 12: GSFA's reliance on institutions has not resulted in significant risk to ensuring applicant eligibility. (p. 44)
23. GSFA should consider requesting additional data fields from institutions as they certify borrowers' eligibility—such as number of enrolled hours and confirmation of federal loans.

24.	GSFA should consider reviewing the enrollment information it receives from the National Student Clearinghouse to identify any disbursements that may need to be reimbursed based on enrollment changes.
25.	GSFA should consider performing targeted compliance reviews to ensure institutions are administering the program according to regulations. This could be based on the number of students participating or a higher than average default rate.

Appendix B: Objectives, Scope, and Methodology

Objectives

This report examines the Georgia Student Finance Authority's (GSFA) Student Access Loan (SAL) Program. Specifically, our audit set out to determine the following:

1. Who utilizes student access loans and how has that changed over time?
2. Is SAL a reasonable program to assist postsecondary students with financial needs?
3. Are controls over the SAL Program sufficient to ensure that students who obtain loans meet necessary requirements?
4. To what extent do SAL participants default on their loan payments?

Scope

This audit generally covered activity that occurred from fiscal year 2012 to fiscal year 2021. Information used in this report was obtained by reviewing relevant laws and regulations, interviewing GSFA officials and staff, and interviewing financial aid staff at 10 participating institutions. We also analyzed data collected by GSFA, the Governor's Office of Student Achievement (GOSA), the University System of Georgia (USG), and the Technical College System of Georgia (TCSG). Finally, we identified postsecondary loan programs in six other states[46] using data from the National Association of State Student Grant and Aid Programs (NASSGAP) Annual Survey Report on State-Sponsored Student Financial Aid (for the 2018-2019 academic year) and interviewed their financial aid staff.

The following datasets were used to inform multiple objectives:

- **Loan Originations** – GSFA's Originations database includes records of all SAL applicants since the program's inception. Each record consists of data points pulled from the SAL application (e.g., student's institution, loan amount requested), as well as information from certifying schools such as cost of attendance (COA), estimated financial aid and family contribution, and the certified loan amount. The application is submitted once per academic year and may include requests for loans in multiple terms. We assessed the controls over data used for this examination and determined that the data used were sufficiently reliable for our analyses.
- **Loan Servicing** – GSFA's Servicing database contains information for each loan a SAL borrower receives. The data include actual disbursement information, the loan's repayment terms (interest rate, repayment period), and loan status (e.g., in school, repayment, default) at the end of each month. The Servicing table also contains borrowers' payment information, including year-to-date and life-to-date payments made toward interest and principal as well as each loan's balance. We assessed the controls over data used for this examination and determined that the data used were sufficiently reliable for our analyses.

[46] Other states with loan programs include Alaska, Hawaii, Massachusetts, Michigan, New Jersey, and Texas.

- **GA AWARDS** – GOSA collects information from various sources for anyone who has been enrolled in the pre-kindergarten, primary, secondary, or postsecondary education system. The database includes information on schools attended and—for postsecondary education—number of enrollment hours, GPA, and credentials received. The data also includes employment (including wages) from the Georgia Department of Labor's (GDOL) unemployment insurance records (which excludes the federal government, self-employed individuals, those working out of state, and small businesses). While we concluded that the information was sufficiently reliable for the purpose of our review, we did not independently verify the data. Additionally, it should be noted that private institutions are not required to report information to GOSA; as such, we were limited in the information available for analysis of these four-year institutions.

  To obtain information, the audit team sent populations for review to GOSA for a match to postsecondary and employment records. At the time of this review, GOSA had obtained GDOL data through calendar year 2019, and postsecondary information was available through academic year 2020, which affected populations reviewed.

Government auditing standards require that we report the scope of our work on internal control that is significant within the context of the audit objectives. We reviewed GSFA's internal controls as a part of Objective 3, as well as GSFA's fraud assessment and mitigations for SAL during our initial programmatic review. Specific information related to the scope of our internal control work is described in the methodology section below.

Methodology

To determine the extent to which SAL was utilized and whether that has changed over time, we reviewed GSFA's Originations and Servicing data to determine the number of applicants and borrowers since SAL's inception. We also looked at participant characteristics, including the institution and institution type (e.g., TCSG vs. private nonprofit), whether the student was financially independent or dependent, and eligibility for the federal Pell Grant. We also utilized GAAWARDS to identify SAL recipients who received HOPE or Zell Miller aid in the year they received a loan or years prior. Finally, we reviewed SAL program regulations and interviewed GSFA staff to identify any changes that have occurred since the loan's inception.

To determine whether SAL is a reasonable program to assist postsecondary students with financial needs, we used NASSGAP's annual survey to identify whether each state offered grants, scholarships, and/or loans with a need-based component. We also used NASSGAP data to compare postsecondary merit- and need-based financial aid programs among states adjacent to Georgia for the 2018-2019 academic year (the most recent academic year available). To ensure we were only comparing aid programs with broad eligibility, we compiled supporting documentation about aid programs and excluded any programs that were not primarily for undergraduate students or that limited eligibility to specific groups of students. We also confirmed whether the program had merit vs. need-based components, categorizing programs as merit-based if they included academic criteria more rigorous than Satisfactory Academic Progress and need-based if they included criteria related to family income or contribution. Additionally, we used the federal Department of Education's website to compare SAL to federal student loans. To baseline average financial aid awards in Georgia, we gathered data from the Integrated Postsecondary Education Data System (IPEDS) on Georgia postsecondary students for the 2018-2019 academic year.

To determine the extent to which borrowers utilize the service cancellation and loan discharge programs, we obtained beneficiary information from GSFA. In addition, we used GDOL data to estimate how many SAL borrowers were potentially eligible for service cancellation but had not applied for the benefit. This population was restricted to borrowers who were shown as employed for at least four consecutive quarters in a position with a North American Industry Classification System (NAICS) code that pertained to public administration or education (which includes positions such as K-12 public school employees, postsecondary institution employees, and state employees). We removed any borrower who worked in multiple jobs in the same quarter, which was assumed to indicate less than full-time employment.

We used the GA AWARDS data to determine postsecondary credential and academic persistence rates of SAL recipients. These rates were compared to the rates of those who applied for the loan but did not receive it in the same year, which we determined were similar enough to create a valid comparison population. Because not all institutions report to GOSA, we tested representation of SAL borrowers by institution type and found that the data were sufficiently representative for all institution types except for private for-profit institutions; as such, we removed these borrowers from the analysis. Other borrowers were removed if they did not have a corresponding enrollment record in the year they obtained the loan. For both analyses, we were able to review approximately 66% of private nonprofit borrowers and approximately 95% of TCSG and USG borrowers.

To determine whether SAL could fund itself with borrower repayments at the current state appropriation amount ($26 million), we estimated principal that should have been collected from each borrower in the year they entered repayment. This estimate was based on amortizing monthly payments using the terms for each borrower's loan and removing the portion that would be dedicated to interest. When a borrower's monthly payment totaled less than $50, we used that amount to account for the requirement for borrowers who obtained loans fiscal years 2015-2021. Actual principal repayment was obtained from GSFA. Projections for future years were based on the average estimated amount for fiscal years 2019-2021, and projected actual amounts were based on the average collection rates for the same time period. Administrative revenue and expenditures were obtained from GSFA; we did not assess the reasonableness of administrative expenses. It should be noted that we assessed SAL's self-sufficiency based solely on principal and revenue collected rather than considering the entire GSFA enterprise fund, of which SAL is a part.

To determine the sufficiency of GSFA's controls over the SAL program, we interviewed GSFA staff about their monitoring practices, specifically as it pertains to the information obtained from school's certifying a borrower's need.

To determine whether SAL is likely a payer of last resort, we reviewed GA AWARDS data to determine whether SAL recipients from four-year institutions obtained federal loans and—for private students—the state's Tuition Equalization Grant.

We analyzed GSFA Originations data to determine whether SAL recipients' COA appeared to be reasonable. We reviewed COAs reported by a sample of 15 prominent institutions (20% of total participating) in loan year 2020 across institution types. We tested the reasonableness of each selected institution's COA by reviewing full- and part-time COA ranges, identifying outliers, and interviewing institutions' financial aid staff as needed.

We reviewed GA AWARDS data to determine whether SAL recipients appeared to meet enrollment eligibility. However, GA AWARDS data did not provide complete data related to enrollment; thus, we requested and reviewed enrollment data from the USG and TCSG. We compared the institution listed for SAL recipients in enrollment data to the institution for which their loan was disbursed. We also determined whether SAL recipients were enrolled at least half-time (six credit hours) at the institution in which they received their loan.

To determine the extent to which SAL borrowers default on their loan payments, we analyzed GSFA Loan Servicing data to determine what percent of borrowers had a status of "default" as of June 2021 (population was limited to those who entered repayment prior to calendar year 2020 because default is not recorded until after approximately nine months of delinquency). We also obtained cohort default rates (the percent of borrowers who enter repayment and then default within three years) from GSFA. We obtained default rate data for federal borrowers using the U.S. Department of Education's published results as well as information from the Pew Charitable Trusts.

We used the Servicing data to calculate default rates based on different borrower characteristics to determine which characteristics yielded a higher percentage of borrowers in default. These included institution type, Pell Grant eligibility, financial dependency status, receiving the HOPE or Zell Miller aid, receiving a deferment or forbearance, and whether the borrower obtained a postsecondary credential. It should be noted that these characteristics were reviewed separately and not in conjunction with each other (e.g., only by institution type rather than combining institution type and Pell Grant eligibility).

In addition, we obtained aggregated wage data from GA AWARDS for SAL borrower cohorts who entered repayment in fiscal year 2017 based on whether they were in default or remained in good standing after three years. The wage data reported represents the average earned for each population over the first three years of repayment. On average, approximately 67% of borrowers reviewed were represented in each quarter reviewed, though the proportion ranged from 41% of for-profit borrowers who defaulted to approximately 74% of TCSG borrowers who remained in good standing. At least 63% of all other borrower types reviewed were represented.

To determine which borrower populations were impacted by SAL's $50 minimum required payment, we used the Servicing data to identify the borrowers who received loans after fiscal year 2015 (when the $50 was implemented) and have entered repayment. Based on borrowers' total debt obligation, we calculated monthly payments based on the 1% interest rate and relevant terms (either 10 or 15 years) and determined how many borrowers had monthly payments less than the $50 minimum. We also calculated the default rate for each institution type based on how much extra borrowers owed (i.e., difference between the $50 minimum and the amortized monthly payment).

Finally, we interviewed GSFA staff and reviewed SAL regulations as well as GSFA correspondence with borrowers to determine the actions taken to ensure borrower repayment prior to and after default.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix C: Eligible Institutions (FY21)

Institution Name	Number of Borrowers	Total Loaned	Average Loan
Private For-Profit			
American Intercontinental University	58	$349,312	$6,023
Art Institute Of Atlanta	2	$16,000	$8,000
Devry University	32	$179,100	$5,597
South University	3	$12,000	$4,000
	95	**$556,412**	**Average $5,857**
Private Nonprofit			
Agnes Scott College	82	$468,003	$5,707
Andrew College	49	$297,596	$6,073
Berry College	80	$449,056	$5,613
Brenau University	247	$1,399,821	$5,667
Brewton-Parker College	12	$51,237	$4,270
Clark Atlanta University	78	$534,462	$6,852
Covenant College	12	$86,874	$7,240
Embry-Riddle Aeronautical University	0	$0	$0
Emmanuel College	14	$91,072	$6,505
Emory University	23	$138,195	$6,008
Georgia Military College	17	$77,163	$4,539
Herzing University	31	$144,685	$4,667
Lagrange College	91	$540,227	$5,937
Life University	7	$44,934	$6,419
Mercer University	649	$4,141,925	$6,372
Morehouse College	31	$215,272	$6,944
Oglethorpe University	81	$535,125	$6,606
Paine College	20	$83,321	$3,968
Piedmont University	72	$348,184	$4,836
Point University	48	$290,493	$6,052
Reinhardt University	39	$252,655	$6,478
Shorter University	49	$281,242	$5,740
Spelman College	42	$306,309	$7,293
Thomas University	6	$39,573	$6,596
Toccoa Falls College	86	$450,292	$5,236
Truett Mcconnell University	82	$430,066	$5,245
Wesleyan College	54	$297,180	$5,503
Young Harris College	63	$352,110	$5,589
	2,065	**$12,347,072**	**Average $5,973**
TCSG			
Albany Technical College	27	$60,750	$2,250
Athens Technical College	75	$157,535	$2,100
Atlanta Technical College	1	$3,000	$3,000
Augusta Technical College	60	$121,950	$2,033
Central Georgia Technical College	22	$43,462	$1,890
Chattahoochee Technical College	9	$20,500	$2,278
Coastal Pines Technical College	25	$46,750	$1,870
Columbus Technical College	29	$51,999	$1,793
Georgia Northwestern Technical College	16	$33,520	$2,095
Georgia Piedmont Technical College	95	$224,500	$2,339
Gwinnett Technical College	13	$35,681	$2,745
Lanier Technical College	10	$24,000	$2,400
North Georgia Technical College	26	$59,320	$2,282
Oconee Fall Line Technical College	33	$62,525	$1,895
Ogeechee Technical College	125	$249,491	$1,996
Savannah Technical College	30	$68,102	$2,270
South Georgia Technical College	42	$87,058	$2,073
Southeastern Technical College	13	$27,500	$2,115
Southern Crescent Technical College	8	$19,000	$2,375
West Georgia Technical College	4	$10,500	$2,625
Wiregrass Technical College	34	$59,994	$1,765
	697	**$1,467,137**	**Average $2,099**

USG			
Abraham Baldwin Agricultural College	7	$24,487	$3,498
Albany State University	35	$155,229	$4,435
Atlanta Metropolitan State College	1	$5,000	$5,000
Augusta University	72	$421,857	$5,859
Clayton State University	105	$569,205	$5,421
College Of Coastal Georgia	80	$432,503	$5,406
Columbus State University	149	$735,718	$4,938
Dalton State College	0	$0	$0
Fort Valley State University	47	$241,800	$5,145
Georgia College & State University	148	$722,797	$4,884
Georgia Gwinnett College	206	$1,189,433	$5,774
Georgia Highlands College	3	$8,528	$2,843
Georgia Institute Of Technology	76	$403,712	$5,312
Georgia Southern University	354	$1,815,377	$5,128
Georgia Southwestern State University	16	$105,500	$6,594
Georgia State University	362	$1,970,890	$5,415
Gordon State College	25	$83,102	$3,324
Kennesaw State University	238	$1,410,210	$5,925
Middle Georgia State University	44	$210,288	$4,779
Savannah State University	242	$1,216,231	$5,005
South Georgia State College	3	$9,429	$3,143
University Of Georgia	127	$595,100	$4,686
University Of North Georgia	87	$381,377	$4,384
University Of West Georgia	58	$288,440	$4,973
Valdosta State University	211	$1,066,179	$5,029
	2,696	**$14,062,392**	**Average $5,208**
Total	**5,553**	**$28,433,013**	**Overall Average $5,113**

Source: GSFA

Appendix D: Financial Table (FY12-21)

	2012[1]	2013	2014	2015[2]	2016	2017	2018	2019	2020	2021
Programmatic										
Available for Loans	$20,000,000	$24,027,549	$24,470,685	$34,316,516	$29,221,483	$34,141,284	$31,545,933	$32,048,725	$33,131,236	$33,797,033
State Appropriations[3]	$20,000,000	$20,000,000	$20,000,000	$29,000,000	$27,000,000	$26,000,000	$26,000,000	$26,000,000	$26,000,000	$26,000,000
Carry over[4]	$0	$4,027,549	$4,470,685	$2,871,490	$2,221,483	$8,141,284	$5,545,933	$6,048,725	$7,131,236	$7,797,033
Loans Distributed	$15,972,451	$19,660,618	$21,997,072	$33,175,275	$23,040,304	$31,667,080	$27,998,621	$28,694,536	$29,894,707	$27,984,335
Net Difference	$4,027,549	$4,366,931	$2,473,613	$1,141,241	$6,181,179	$2,474,204	$3,547,312	$3,354,189	$3,236,529	$5,812,698
Net Principal[5]	$0	$103,754	$397,877	$1,080,242	$1,960,105	$3,071,729	$2,501,413	$3,777,047	$4,560,504	$7,120,337
Net Gain/Loss[6]	$4,027,549	$4,470,685	$2,871,490	$2,221,483	$8,141,284	$5,545,933	$6,048,725	$7,131,236	$7,797,033	$12,933,035
Administration										
Total Revenue	$208,590	$610,447	$1,521,870	$2,851,044	$3,196,614	$2,240,509	$3,571,458	$3,525,917	$3,482,798	$3,602,363
Origination Fees	$130,511	$162,784	$176,975	$360,308	$265,669	$343,121	$280,740	$269,253	$277,444	$269,806
Interest Income	$78,079	$447,663	$1,344,895	$2,490,736	$2,821,159	$1,708,250	$3,055,259	$2,992,583	$2,972,693	$3,031,047
Late Fees	$0	$0	$0	$0	$109,786	$189,138	$235,459	$264,081	$232,661	$301,510
Administrative Expenses	Not Available	$200,026	$618,658	$986,394	$3,024,085	$2,447,698	$2,466,683	$2,974,570	$2,930,786	$3,014,830
Net Gain/Loss[7]	Not Available	$410,421	$903,212	$1,864,650	$172,529	-$207,189	$1,104,775	$551,347	$552,012	$587,533

[1] According to GSFA staff, GSFA did not begin accounting for SAL's financials until 2013. As such, while revenue could be identified, SAL's administrative expenses could not be distinguished in fiscal year 2012.

[2] SAL received an additional $2,445,026 from prior year Authority dollars to cover loans disbursed in excess of available funds. The General Assembly funded a one-time appropriation of $10 million for loans to TCSG students only.

[3] Includes funds from lottery proceeds only. "Other funds" in appropriations reflect repayment revenue GSFA anticipates receiving.

[4] Programmatic carry over includes unused appropriations and principal repayments from previous fiscal years.

[5] Represents the amount collected throughout the fiscal year and thus available for loan distribution in future years. Net principal deducts capitalized interest, which is interest accrued during non-payment that is incorporated into the principal amount owed. GSFA staff stated this is deducted (as of fiscal year 2017) because it is not actual revenue received. Because it may never be collected, it is deducted to avoid overstating the actual principal repayment amount.

[6] The 65% increase in the net gain for fiscal year 2021 is due to the lower amount of loans distributed and the increase in payment revenue—both of which GSFA attribute to the COVID-19 pandemic.

[7] SAL is accounted for within a larger enterprise fund within GSFA, which includes other programs. As such, we report only SAL's net gains or losses related to its revenue, which is held in unrestricted funds.

Source: GSFA

Appendix E: Georgia Scholarship and Grant Programs

Relevant Programs[1]	2018-19 Information[2]	Eligibility Requirements[3]
Merit Only		
HOPE Scholarship	$438,872,525 $4,202 per student 104,451 students	Available to students enrolled in degree-seeking programs. A 3.0 GPA is required to obtain and maintain eligibility.
Zell Miller Scholarship	$229,976,118 $7,834 per student 29,356 students	Available to students enrolled in degree-seeking programs. To obtain the scholarship, must graduate with a 3.7 GPA and meet other academic requirements. A 3.3 GPA is required to maintain eligibility.
Zell Miller Grant	$13,597,867 $1,292 per student 10,523 students	Available to postsecondary students with a 3.5 GPA at all technical colleges and five USG institutions as long as they have not already received a bachelor's degree.
Need Only		
Student Access Loan	$28,768,327 $5,212 per student 5,520 students	Available to postsecondary students with a demonstrated unmet need after estimated financial aid and estimated family contribution have been considered in relation to their postsecondary costs of attendance. Must maintain Satisfactory Academic Progress.
Merit & Need		
Realizing Educational Achievement Can Happen (REACH) Scholarship	$4,588,000[4] $1,215 per student 459 students	Available to 7th or 8th grade students who are eligible for free or reduced lunch per federal income eligibility guidelines and are selected by their school districts to apply for the program as REACH Scholars. Those who maintain a 2.5 GPA in high school receive a scholarship for up to four years of their postsecondary education.
Other		
HOPE Grant	$28,195,304 $953 per student 29,954 students	Available to any postsecondary student at all technical colleges and four USG institutions as long as they have not already received a bachelor's degree. Must maintain Satisfactory Academic Progress.
Tuition Equalization Grant Program	$22,608,847 $815 per student 27,755 students	Available to any postsecondary student at 34 independent or private schools in Georgia. Must maintain Satisfactory Academic Progress.
HOPE Career Grant	$13,160,117 $621 per student 21,186 students	Available to postsecondary students who qualify for the HOPE or Zell Miller Grants and enroll in strategically important programs to the state's economic growth, such as nursing and construction. Must maintain Satisfactory Academic Progress.
Total	**$779,767,105**	

[1] Georgia programs generally available to undergraduate students and not limited on the basis of specific qualifying criteria such as military service or enrollment in a specific institution. Specialty scholarships and grants comprised an additional approximate $113.3 million in expenditures in FY 2019.

[2] "Per student" calculations represent the average annual amount received based on the number of recipients and expenditures.

[3] Unless otherwise noted, available to postsecondary students enrolled in any one of USG and TCSG's institutions, as well as 34 private institutions (as of FY 2022).

[4] Based on FY 2019 Appropriations. Average amount per student and total number of students reported by GSFA's annual performance metrics.

Source: GSFA, O.C.G.A., and FY 2019 Appropriations, and NASSGAP

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