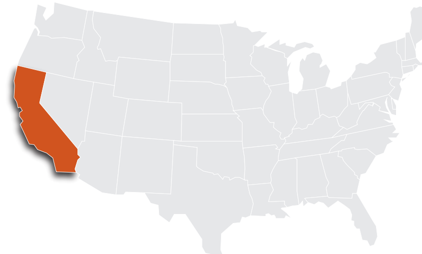
BORROWING FOR COLLEGE

The State of Higher Education in California

MARCH 2014

Updated

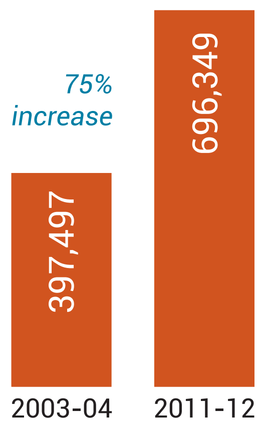


Families and students understand the value of a college education and degree. It is why they choose to make a financial investment in higher education. While families and students use a combination of sources to finance their college investment, ranging from personal contributions, grants, and student loans, the rate of student loan borrowing is rising significantly both here in California and nationally.

Student loans can help to bridge the financial gap for college after families have exhausted other forms of financial aid, and make a college education possible for millions of students who otherwise would not be able to pursue a higher education. Not all student debt is harmful, and California is considered a low-debt state, but if student loan debt becomes unmanageable for borrowers there is valid cause for concern.

INCREASING

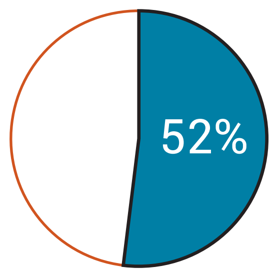
Number of Undergraduate Federal Student Loan Borrowers in California



For context, the state's total undergraduate population increased by only 9.6% during the same timeframe.

Source: Data provided directly to author by U.S. Department of Education, 2014

Amount of Debt at Graduation



Percentage of 4-Year University Graduates in California with Student Loans, Class of 2012

Average Debt in 2003-04: **$16,071**

Average Debt in 2011-12: **$20,269**

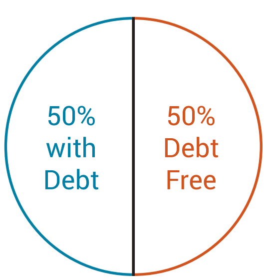
Source: Author's analysis of College InSight, 2013.

BY TYPE OF INSTITUTION

California Public 4-Year Universities

Average Graduate Debt in 2012: **$17,994**

Average Debt of Graduates in Federal Student Loans: **$17,558**

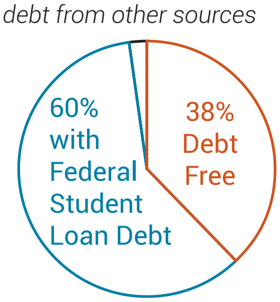


California Independent Colleges

Average Graduate Debt in 2012: **$29,035**

Average Debt of Graduates in Federal Student Loans: **$22,331**

2% with all of their student debt from other sources

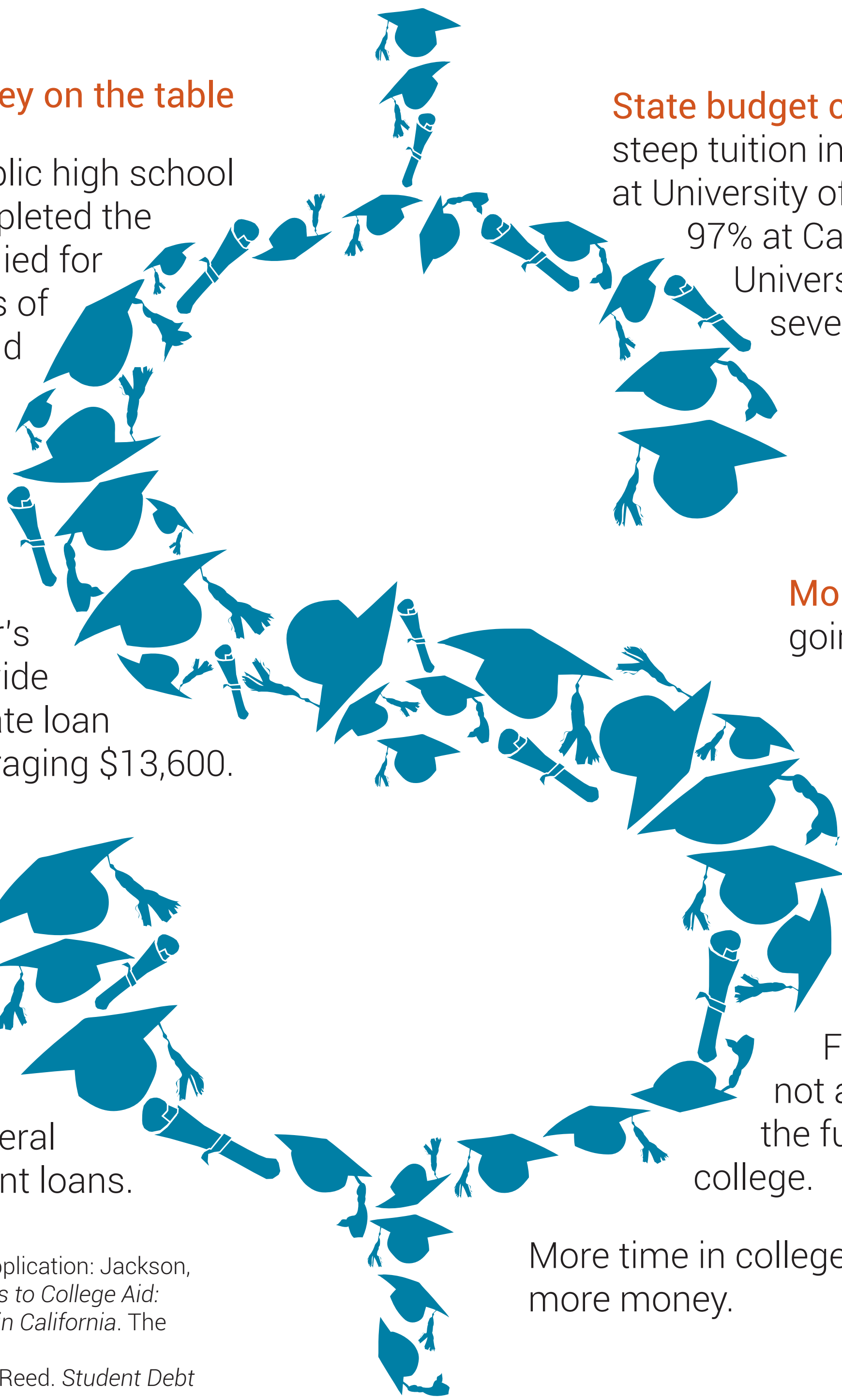


Source: Author's analysis of College InSight, 2013.

State data is not available for Private, For-Profit Four-Year colleges, but nationally 88% of students graduate with debt at an average of $39,950.

Source: Cochrane, Debbie and Matthew Reed. (December 2013). *Student Debt and The Class of 2012.*

4 KEY DRIVERS INCREASING DEBT



Leaving money on the table

61% of California public high school graduates completed the FAFSA, and 58% applied for Cal Grants. Millions of dollars in federal and state financial aid go unclaimed by eligible students.

30% of all bachelor's recipients nationwide graduated with private loan debt averaging $13,600.

44% of undergraduates who took out private loans did not maximize their eligibility for federal student loans.

State budget cuts causing steep tuition increases: 84% at University of California, and 97% at California State University in the past seven years alone.

More students are going to college.

True cost of college

Financial aid does not always account for the full cost of attending college.

More time in college costs students more money.

Sources:
FAFSA Completion & Cal Grant Application: Jackson, Orville. (February 2014). *Doorways to College Aid: Boosting Access to Financial Aid in California*. The Education Trust-West.
Private Loan Debt: Cochrane and Reed. *Student Debt and The Class of 2012*.
Tuition Increase: Department of Finance (January 2014). *Governor's Budget Summary, 2014-15*.

RECOMMENDATIONS

HIGH SCHOOLS, SCHOOL DISTRICTS, & SCHOOL BOARDS

- Provide information on financial aid options to all students in high school, and incorporate this information into the school curriculum in order to better align with new Common Core state standards and other college-readiness initiatives.

- Require high schools to track how many students complete the FAFSA and apply for state financial aid, and require schools to use this data to set goals for increasing those rates of completion.

- To meet the requirement of the Cal Grant application and to reduce the burden on the student, require all high schools to electronically submit GPA and graduation verification for all high school seniors directly to the California Student Aid Commission.

STUDENTS & FAMILIES

- Ensure students maximize their federal and state financial aid and work-study offers by completing FAFSA and Cal Grant applications.

- If students have to utilize student loans, ensure that students maximize their eligibility for federal student loans before resorting to private student loans.

- Before choosing a college or university, review student success data and information on cost of attendance and loan default rates using the Federal College Scorecard as provided by the U.S. Department of Education (http://collegecost.ed.gov/scorecard/index.aspx).

COLLEGES & UNIVERSITIES

- Improve education and distribution of financial aid information to students and their families, especially on federal student loan repayment options in order to reduce the risk of default among graduates.

- Improve student loan entrance and exit counseling by utilizing common guidelines and to personalize counseling based on a student's financial situation.

- Reduce college time to completion in order to decrease the overall cost of a higher education, by offering streamlined academic programs and more student support resources to help reduce unnecessary coursework.

- Control costs as a way to minimize tuition increases.

STATE POLICYMAKERS

- Preserve and, where possible, expand state financial aid opportunities to help students reduce their reliance on student loans.

- Increase the amount of state financial aid to cover necessary costs of attendance beyond tuition and fees for low- and middle-income students, especially for those enrolled at community college.

- Increase the number of competitive financial aid grant awards for students who do not receive a guaranteed grant.

- Expand funding and resources for the state's public colleges and universities to grow capacity, but hold the institutions accountable for improving time to completion and graduation rates for all students, especially for those who are low-income and/or historically underrepresented minorities.

FEDERAL POLICYMAKERS

- Make enrollment into flexible loan repayment options automatic when a federal student loan borrower is in danger of default.

- Allow private student loans to be discharged in bankruptcy, like all other consumer debt.

- Preserve and, where possible, expand the Pell Grant program to help close income gaps in college access and completion.

- Consider requiring private loan lenders to provide consumer protections that match what federal student loan programs offer, such as repayment grace periods and required entrance and exit counseling sessions.

UNDERGRADUATE FEDERAL STUDENT LOAN OPTIONS

(for loans disbursed between July 2013 and July 2014)

Loan Type	Annual Maximum	Maximum Total	Interest Rate	Subsidized/ Unsubsidized	Lender	Borrower
Federal Perkins	$5,500	$27,500	5% fixed	Subsidized	Educational institution	Undergraduate students with exceptional financial need
Direct Subsidized	Varies depending on class standing and dependence of student ($5,500 annual maximum for dependent freshman; $12,500 annual maximum for independent student)		3.86% fixed	Subsidized	U.S. Department of Education	Undergraduate students with financial need
Direct Unsubsidized				Unsubsidized		Undergraduate students, no financial need required
Direct Parent PLUS	Student's total borrowed loan amount based on school's declared total cost of attendance, minus other financial assistance		6.41% fixed	Unsubsidized	U.S. Department of Education	Parents of dependent undergraduate students

FEDERAL STUDENT LOAN REPAYMENT OPTIONS

Repayment plans based on future income & earnings

Plan Type	Factors for Participation & Repayment Calculation	Maximum Monthly Payment	Loan Forgiveness Eligibility
Income-Based Repayment (IBR)	The borrower must demonstrate a partial financial hardship. Discretionary income defined as the difference between a borrower's adjusted gross income and 150% of the poverty guideline for the borrower's family size and state of residence.	15% of discretionary income	after 25 years of qualifying monthly payments
Pay As You Earn & 2014 IBR	The borrower must demonstrate a partial financial hardship.	10% of discretionary income	after 20 years of qualifying monthly payments
Income-Contingent Repayment (ICR)	Calculated each year based on adjusted gross income, family size, and the total amount of federal student loans owed.	20% of discretionary income	after 25 years of qualifying monthly payments

As of May 2013, 97,822 of borrowers participating in the income-based repayment plan are located in California; state participation in Pay As You Earn and income-contingent repayment plans is not publicly available.

(Source: Data provided directly to author by U.S. Department of Education, 2013.)