Exhibit 3

Information/Action Item

Consideration of draft report on the public hearing on student debt and financial literacy

This Agenda item will provide for Commission review a draft report for based on the information presented at the November 14th, 2014 Symposium on Student Debt.

The California Student Aid Commission has identified the issue of student financial literacy as a key policy issue for the coming year. At the June 2014 meeting, the Commission requested that staff convene experts on the issue of student financial literacy and student loan debt in order to provide Commissioners information about the current state of financial literacy training programs, as well as the relationship between financial literacy and other policy priorities, such as student loan debt.

In response to this request, staff convened a series of expert panels to present information on the subjects of financial literacy and student debt at the November 14th 2014 Symposium on Student Debt.

The report summarizes the information presented, and synthesizes it into a series of policy proposals that align with the Commission's stated policy priorities. The report is being distributed at the January 16, 2015 Commission meeting, to provide Commissioners an opportunity to read it in preparation to vote on its approval for distribution at the February 20-21, 2015 Commission meeting.

Recommended Action: Review draft report.

Responsible Person(s): Ed Emerson, Chief
Strategic Policy, Media and Communications

DRAFT REPORT

Student Loan Debt: Impact and Options in California

February 2015

California Student Aid Commission

Since its creation by the Legislature, in 1955, the Commission has continued to operate as the principal state agency responsible for administering financial aid programs for students attending public and private universities, colleges, and vocational schools in California. The Commission has never wavered from its central mission to ***make education beyond high school financially accessible to all Californians***. In addition, the Commission provides financial aid policy analysis and leadership, in partnership with California's colleges, universities, financial institutions, and financial aid associations.

Executive Director Diana Fuentes-Michel

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Introduction

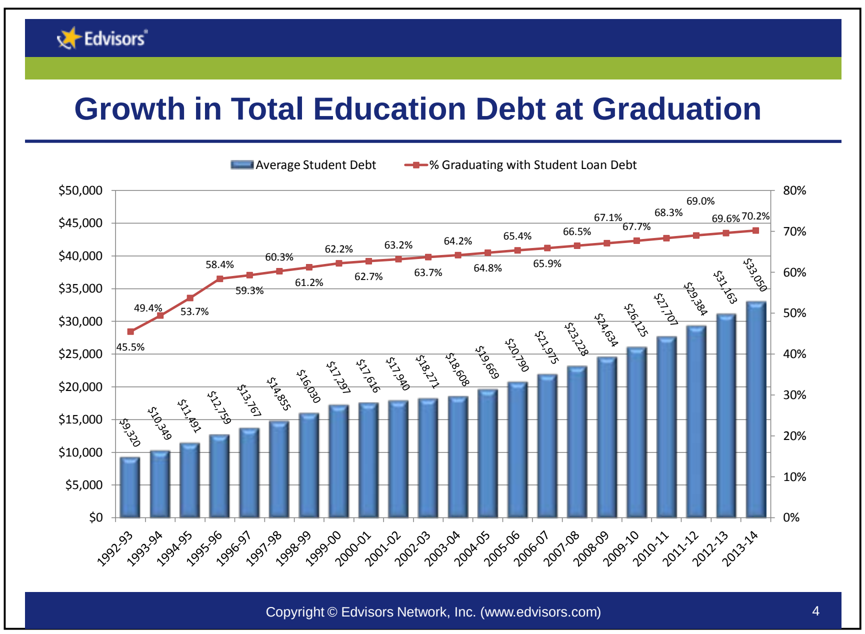
The poster child for student loan horror stories is the graduate who has more than $100,000 in loans to repay, cannot find a job in his or her field because of low labor market demand, and is now in default after struggling with an impossible monthly payment on a minimum-wage income. There is no escape in bankruptcy, and deferred interest pushes the six-figure total ever higher.

This is the narrative that grabs headlines, but in many ways it is a distraction from the real problem. That is because those with six-figure debt represent only a tiny portion of graduates: 0.3% of undergraduates and 15.1% of those with graduate (master and doctoral) and professional (law, medicine, etc.) degrees.[1]

In reality, the student loan debt impact is much more nuanced than the horror stories reflect. Some of the increase stems from the encouraging fact that more people are going to college. At public colleges average net tuition and fees have risen more that 50 percent over the last decade.[2] These realities are affecting a broad range of choices that many young Americans make before, during and after college.

That the problem is pervasive is well recognized. Consider these statistics:

- As of September 2014, total outstanding balances for federal and private student loans were at a record high of $1.31 trillion, according to a Federal Reserve report.[3] That is more than the American debt load for both consumer



[1] Edvisors Network, Inc., "Six-Figure Student Loan Debt" chart in Nov. 14, 2014 presentation to California Student Aid Commission.

[2] "The Reality of Student Debt is Different From the Clichés," http://www.nytimes.com/2014/06/24/upshot/the-reality-of-student-debt-is-different-from-the-cliches.html, Dec 2014.

[3] "Student Borrowers Get Break on Loans," Wall Street Journal, Nov. 20, 2014.

credit cards ($881.8 billion[4]) and automobile loans ($839 billion[5]).

- Of those who obtained a bachelor's degree in 2013-14, 70.2% had student loans, with an average debt of $33,050. This is up from $31,163 the prior year and $24,634 five years ago.[6] (See chart above.)
- Today 40 million Americans have at least one outstanding student loan, according to an analysis by credit bureau Experian.[7] Approximately 7 million Americans are in default on an estimated $100 billion in student loans, both federally guaranteed and privately financed.[8]
- Among Millennials (18 to 34 year olds), more than one in three (36%) have student loan debt, and 55% of this group are concerned they may not be able to repay their loans, according to the 2012 National Financial Capability Study.[9]

Although the results from academic studies are mixed, many economists fear that the student loan debt burden is delaying the ability of an entire generation to move forward with desired careers, household formation, marriage, and child-bearing. In addition, analyses indicate that the specter of taking on unmanageable debt is altering decisions students and families make as they apply to, enter and leave college. The overall result is believed by some experts to be both a drag on economic growth and a stumbling block to upward mobility for many low-income and ethnically diverse students.

With this as a context, the California Student Aid Commission hosted a Symposium on Student Debt in California in the State Capitol on November 14, 2014. Invited experts addressed many facets of the student debt problem and offered a variety of strategies to improve the outcome for students and their families. Representatives of public and private nonprofit colleges provided information about what they are currently doing to address student loan debt. Several participants credited the Cal Grant program, administered by the Commission, with significantly lowering the student debt load for California graduates when compared with national statistics.

Recognizing its limited ability to provide direct solutions to the problem (increasing grant funds, improving repayment options, lowering college costs, etc.), the Commission focused on areas

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[4] "Card Debt Statistics: 2014," http://www.nerdwallet.com/blog/credit-card-data/average-credit-card-debt-household/, Sept. 2014.

[5] "The Rise in Auto Loans Across the US," http://www.bankrate.com/finance/auto/table-auto-loan-debt-per-capita-by-state.aspx, Sept. 2014.

[6] Edvisors Network, Inc., "Growth in Total Education Debt at Graduation" chart in Nov. 14, 2014 presentation to California Student Aid Commission.

[7] "40 million Americans now have student loan debt," http://money.cnn.com/2014/09/10/pf/college/student-loans/, Sept. 10, 2014.

[8] "Report: Student Loans are Struggles," Sacramento Bee, Oct. 17, 2014.

[9] "Helping Americans Build Financial Knowledge," *Survey of the States: Economic and Personal Finance Education in Our Nation's Schools,* Council for Economic Education, Feb. 2014.

where it believes it can make a difference through partnerships, expanded initiatives and legislative action.

The following report provides background from the Symposium and outlines key recommendations adopted by the Commission at its June 2014 meeting.

Background

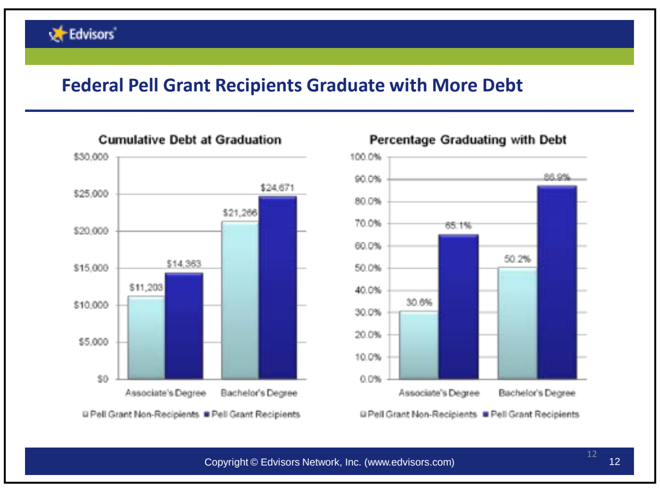
Measured from almost any perspective, the student loan debt is enormous and growing – and it is having a significant effect on student decisions, before, during and after college. But not all debt should be demonized, as the Symposium's featured presenter made clear in his remarks. **Mark Kantrowitz**, Senior Vice President and Publisher at Edvisors.com, provided an overview on the current state of student debt in the United States and the potential impact on the economy. The following are his key points:

- **Drag on the Economy** – Student loan debt grows at about $100 billion each year and is expected to reach $2 trillion in 2017. The level of debt is such that it has an impact on the economy, although a weak one. Annual student loan payments now total 0.4 percent of Gross Domestic Product. Funds expended on repaying loans are not available for discretionary purchases that contribute to economic growth.

- **Greater Impact on Low-Income Students –** National, state and institutional grants are not keeping pace with increases in college costs, so the net cost for families (the full cost of college minus grant and scholarship funding that does not have to be repaid) is rising. Students from low-income families are impacted the most. Currently, the net price of a four-year degree equates to 69% of a low-income family's income, compared to 25% for a middle-income family and 14% for a high-income family.

- **Effect Before and During College –** As tuition increases, students are faced with graduating with more debt or attending less costly colleges. This narrows their choices when they apply to colleges or may disrupt their college path in midstream as they shift to lower-cost options. In 2011, approximately three-quarters of students from high-income families and half of those from middle-income families attended four-year institutions; only one-third of those from low-income families did so. A student from a low-income family pays a greater percentage of total income to attend community college (34.7%) than a middle-income student pays to attend a public four-year college (21.2%).

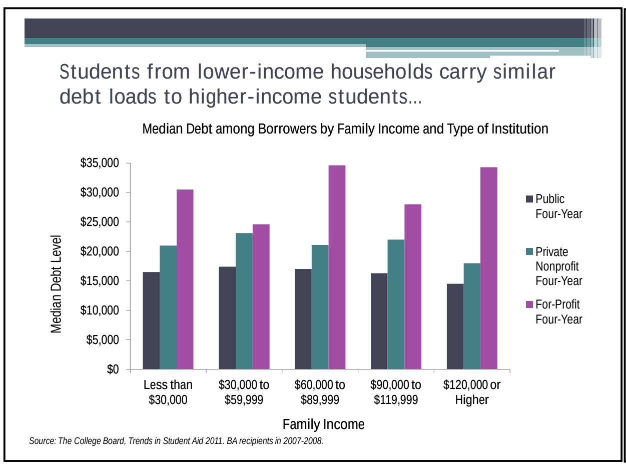
- **Post-College Disparity:** Even when students from low-income families choose cheaper options, they still end up with greater loan debt. Pell Grant recipients (a proxy for low-income, at-risk students) graduate with more debt than their counterparts. For those graduating with an associate degree, 65% vs. 31% of non-Pell recipients have student loan debt. For those graduating with a bachelor's degree, the debt comparison is almost 90% vs. 50%.

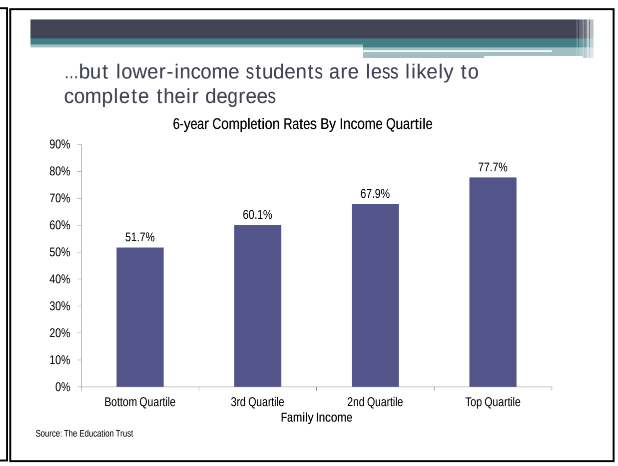


During his presentation, Mr. Kantrowitz also discussed the concept of "good debt," borrowing money to invest in a way that produces value that appreciates over time. Student loans are often characterized as good debt because borrowing to fund an education is an investment that gives a student better opportunities for a well-paid career.

However, Mr. Kantrowitz noted, the cost of debt matters. Today, every dollar borrowed in student loans costs about two dollars by the end of repayment, essentially doubling the cost of expenses covered by loan proceeds. When students borrow more than their prospective career can generate, they are no longer taking on good debt. As a guideline, he said students should keep their loan debt at graduation below the annual income of jobs in their field. In addition, Kantrowitz noted that while private loans and the Federal Direct Plus loan program can enable families to borrow more, he advised that parents should borrow no more than they can repay in 10 years or by the time they retire, whichever comes first.

Laura Choi, a researcher with the Federal Reserve Bank of San Francisco, led off a panel discussion on the Economic and Social Impacts of Student Debt with the observation that the impact of student loan debt is even greater when students fail to graduate from college. Unfortunately, that more often occurs when lower-income students struggle to complete their degrees, dropping out when the burden becomes too great (see charts below).





Ms. Choi noted that studies have been mixed regarding the impact of student debt on major purchases, such as housing, and on life choices, such as marriage and having children. However, she said there clearly is a drag on the economy when debt repayment leaves little income for discretionary spending.

As part of the panel discussion, The Institute for College Access & Success (TICAS) provided the organization's recently-issued report on student debt for 2013 graduates across the country, based on information from 1,000 colleges. Key points made by Research Director Debbie Cochrane included:

- 69% of graduates from public and private nonprofit colleges had student loan debt in 2013, owing an average of $28,400 (up 2% from the prior year).

- California has among the lowest rates (55% of graduates compared to 61% nationally) and amounts ($20,350 compared to $28,400) of student loan debt. She attributed California's lower figures to Cal Grants and the historically low tuition at public colleges.

However, Ms. Cochrane noted that trends are showing large growth in California figures. The level of debt has increased 31% over the past five years in the UC system compared to 25% average debt growth nationally. The share of students graduating with debt has grown 20% statewide compared to 5% nationally over the past five years, with the share growing 30% in the CSU system. (See chart below.)

*The TICAS numbers do not include Federal Direct PLUS or Private loan data

Student Debt for 2013 BA Recipients *California vs. the Nation*				
	Average Debt	**5-year change**	**Share with Debt**	**5-year change**
Nation	$26,400	+25%	61%	+5%
California (all)	$20,350	+20%	55%	+20%
Nonprofits	$28,200	+15%	60%	-3%
Publics	$18,050	+24%	53%	+23%
CSU	$16,300	+19%	52%	+30%
UC	$20,500	+31%	55%	+17%
Source: The Institute for College Access & Success, Nov 2014				

The final panel during the Symposium focused on what colleges currently are doing to address the student loan debt situation. Representatives from public and private nonprofit colleges provided testimony:

- Veronica Villalobos Cruz, Vice President of External Relations, Association of Independent California Colleges and Universities, said private nonprofit colleges in California educate 320,000 students, conferring 20% of bachelor degrees and 50% of graduate degrees in California. More than three-quarters of the students receive institutional aid, while 18% receive Cal Grants and 30% receive Pell Grants. Many of the colleges incorporate financial literacy education into their curriculums and provide counseling about manageable debt.

- Rachelle Feldman, Assistant Vice Chancellor of Financial Aid and Scholarships at UC Berkeley, noted that across the UC system, the proportion of students across all income categories that graduate with student loans is lower in 2012-13 than it was a decade ago because of robust student financial aid and fee waiver efforts. Initiatives at Berkeley have shown that students are interested in financial literacy, but it is most effective when counseling is in-person – a high-touch approach that requires more resources than are available. She said Berkeley has had great success with its peer counseling program.

- Rhonda Mohr, the Dean who specializes in financial aid for the California Community Colleges Chancellor's Office, provided information about the low level of borrowing at community colleges and the system's financial literacy initiative. The community college system encompasses 2.1 million students at 112 community colleges. Approximately 54,000 students borrowed a total of $290 million in 2012-13. Low levels of borrowing result from the low enrollment fee ($46 per unit) and the Board of Governors fee waiver (1.1 million students received the waivers in 2012-13). Many of the campuses have instituted "budget before borrowing" strategies, awareness of incomes for different career options, and increased counseling. In addition, community colleges that are seeing high rates of student loan defaults participate in the system's Default Prevention Initiative to institute policies to change the trends. Interventions range from adding financial literacy to the curriculum, loan advising for students who have exited the system, and combining financial aid planning with academic planning.

- Dean Kulju, Director, Student Financial Aid Services and Programs, CSU, provided an overview of CSU activities, including financial literacy integrated into first-year experience classes at some campuses. He spoke of the need to make financial literacy curriculum engaging and interactive for it to be effective.

Research: Wealth vs. Income

Although current financial aid policies and programs are largely keyed to income, some research indicates that household wealth is more closely correlated with a student's struggles to obtain a college education.

Dr. Su Jin Jez, Assistant Professor of Public Policy and Administration, California State University, Sacramento, provided information during the Symposium about her 10 years of research on the impact of family wealth on college access. Her key points are:

- Wealth (the value of household assets less all debts) and income (the amount of money earned in a household over a given period) are two different measures. Dr. Jez' research shows that wealth is a much more important factor than income in college attendance.
- Low-wealth students are worse off than low-income students, and high-wealth students are better off than high-income students in the college-going process.
- Wealth is correlated to whether a student attends a two-year college, a less-selective four-year college or a more-selective four-year college.
- Wealth also accounts for some of the racial and ethnic disparities in college access.

Based on her research, Dr. Jez recommended that policies for improving the student loan debt situation focus on increasing the wealth of low-wealth families and the non-financial factors that relate to wealth, such as academic achievement and college-going expectations.

Policy Recommendations

Increasing the amount of free financial aid available to students and encouraging colleges to operate more efficiently so they can limit the continuing growth in tuition are strategies that have yet to turn the tide against rising education costs. Nonetheless, both are strategies that the Commission will continue to support and advocate on behalf of. At the request of the Commission, however, Symposium participants focused on solutions that can be implemented at the state level and that are within the purview of the Commission's activities or sphere of influence. Many of the recommendations involve providing clarity to students and families prior to college selection and fostering better financial choices by students while they are in college and after they graduate.

In accord with the testimony at the Symposium and within the scope of the Commission's ability to take action, the Commission has adopted the following policy recommendations:

1. Financial Literacy

Providing students and families with basic information about managing personal finances is key to helping students make better, more informed decisions about budgeting for life expenses, borrowing wisely, and choosing repayment options that make sense. Many students who receive lump-payment loans may never before have had large amounts of money at their disposal. Incorporating financial literacy into the college orientation experience has proven helpful, but there is widespread agreement that financial literacy education must begin sooner. California is one of seven states that does not include personal finance education in its K-12 standards, neither requiring school districts to offer courses nor students to take them.[10] As a result, students often leave high school with little understanding about financial matters, including credit cards and borrowing. "Know before you owe" and "budget before you borrow" should become standard mantras for all students.

The Commission recommends:

- Adding requirements to the Cal Grant program Institutional Participation Agreements (IPA) that require participating colleges to offer robust financial literacy education and effective counseling for students, especially those from low-income, low-wealth households. This should include aggressive outreach and counseling to students with high debt loads while they are still enrolled and considering taking on more loans.

- Creating a partnership between the Commission and the California Department of Education to support incorporating personal finance education in the K-12 state standards, identify effective financial literacy and personal finance curricula, and encourage districts to incorporate the curricula in their course offerings.

[10] "Status of Personal Finance Education – 2014," Survey of the States: Economic and Personal Finance Education in Our Nation's Schools, Council for Economic Education, February 2014.

- Spreading financial literacy education to adults, both families of students and educators, through the Cal-SOAP partnerships with school districts and in partnership with other state agencies when appropriate.

2. Information Clarity

Too often students and their families either have inadequate or misleading information at the time they must make crucial decisions about applying to colleges, accepting financial aid, and repaying college debt. For example, students from low-income households may be dissuaded from applying to four-year colleges because they do not understand that grants are available and are fearful of taking on debt. Other students may receive financial aid offers that do not clearly differentiate between "free" grant money, subsidized-interest federal loans, and more costly private loans. Still others may pursue degrees that make little financial sense because of the high debt required when compared to the job and wage opportunity provided by the degree.

The Commission recommends:

- Working with California colleges to standardize financial aid award letters (and incorporating the standardized format into the Cal Grant program institutional agreement), with clear distinctions between loans and grants and ranking lower-cost options for borrowing first.

- Making more information available earlier to students and their families about net cost and the availability of financial aid so that students feel enabled to apply to the broadest range of appropriate college choices.

- Ensuring that students can find information online about college outcomes regarding graduation rates and graduate employability, as well as statistics about career fields and potential income.

3. Repayment Options

Once students graduate, they face a wide range of options for repaying student loans. Some are helpful (loan consolidation) while others may have a long-term impact that can be overlooked in a rush to lower monthly payments (options that lengthen payment time and increase total costs). Students need assistance to understand which choices are best for their situation. In addition, private loans often have fewer protections for borrowers, although recent pressure from the federal government is resulting in private loan providers offering more options.

The Commission recommends:

- Raising awareness of repayment options through exit counseling for graduates.
- Standardizing information about loan consolidation and repayment options.

Over the past five years, California students have fared well when it comes to student loan debt compared to their national counterparts, despite years of rising tuition in public institutions. Cal Grants will continue to help lessen the impact of the growing cost to earn a degree. By taking additional steps and working closely with the Legislature, other state agencies and external partners, the Commission believes students can be better prepared to make wise decisions about investing in a college education and repaying their debt in the most cost-effective manner.