Item 3

Action Item

Consideration of draft report on the Commission’s public hearing in November 2014: A Symposium on Student Debt in California

The draft report on the Commission’s November 14, 2014 symposium on student debt was referred to Commissioner Anton as a member of the SI committee for final editing

The revised draft is presented in Item 3.1 – Notes from the Student Aid Commission Symposium on Student Debt – for consideration by the Student Impact Committee and the Commission.

Recommended Action: Approve Item 3.1 as the Commission’s report on the November 14, 2014 Symposium on Student Debt.

Responsible Person(s): Commissioner Nancy Anton

Brandon Biegert, Senior Policy Analyst
Strategic Policy, Media and Communications Division

Notes from the Student Aid Commission Symposium On Student Debt

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 November, 2014 the Commission hosted the Symposium on Student Debt in California. This document is a summary of the information presented at the symposium.

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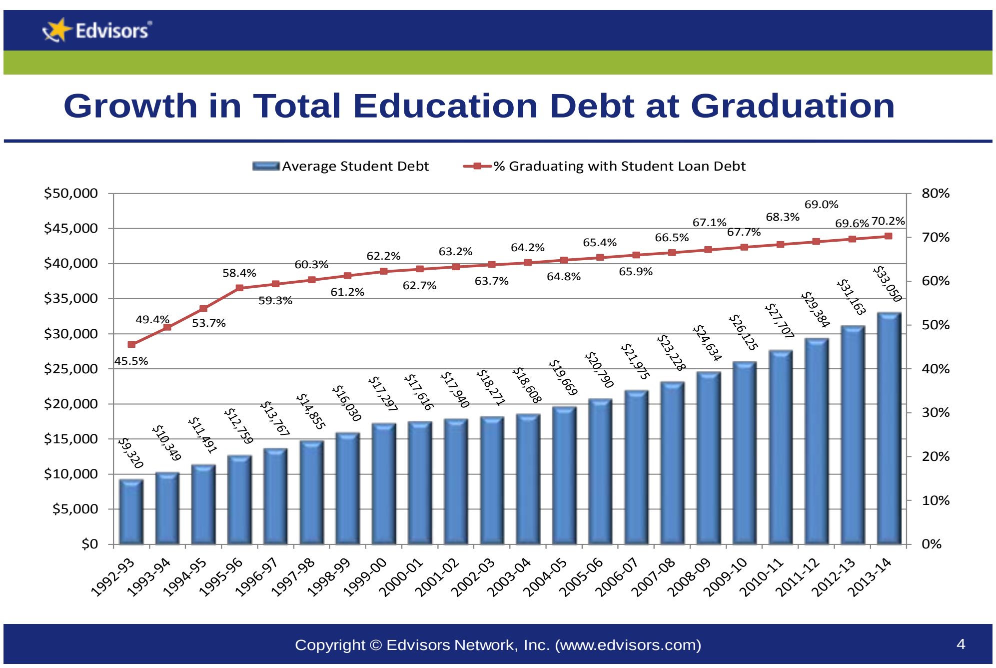
Introduction

The California Student Aid Commission convened many leading experts on student debt, education finance, financial aid and education policy to discuss the impacts of rising student debt levels, and to identify policy options available to the Commission to address the issue. The Symposium on Student Debt in California, held in the State Capitol on November 14, 2014 offered the Commission, as the key agency responsible for financial aid administration and policy in the state of California, an opportunity to explore options to address this important issue.

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. Student Loans have been exempted from bankruptcy protections since 1976, so for graduates who find themselves unable to manage high student debt levels, there is no escape in bankruptcy. Further, many student loans offer deferred interest, which allows interest to accrue and fold into the principle while the student is in college, which pushes the six-figure debt even higher.

This is the narrative that grabs headlines, but in many ways it is a distraction from the true scope of the 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, affecting a broad range of choices that many young Americans make – before, during and after college.

Figure 1



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

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

- As of September 2014, total outstanding balance for student loans was at a record high of $1.31 trillion, according to a Federal Reserve report.[2] That is more than the American debt load for both consumer credit cards ($881.8 billion[3]) and automobile loans ($839 billion[4]).

- Figure 1 shows 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.[5]

- Today 40 million Americans have at least one outstanding student loan, according to an analysis by credit bureau Experian.[6] Approximately 7 million Americans are in default on an estimated $100 billion in student loans, both federally guaranteed and privately financed.[7]

- Among Millennials – the generation born between 1978 and 1994 – 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.[8]

Many economists report that the overwhelming 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 fear 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 invited experts to address many facets of the student debt problem and offer a variety of strategies to improve outcomes for students and their families. Representatives of public and private nonprofit colleges provided information about what they are currently doing to address rising levels of student loan debt. Several

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

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

[4] "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.

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

[6] "40 million Americans now have student loan debt," http://money.cnn.com/2014/09/10/pf/college/student-loans/, Sept. 10, 2014.

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

[8] "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.

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, providing direct loan repayment assistance, lowering college costs, etc.), the Commission focused on areas where it believes it can make a difference through partnerships, expanded initiatives and legislative action.

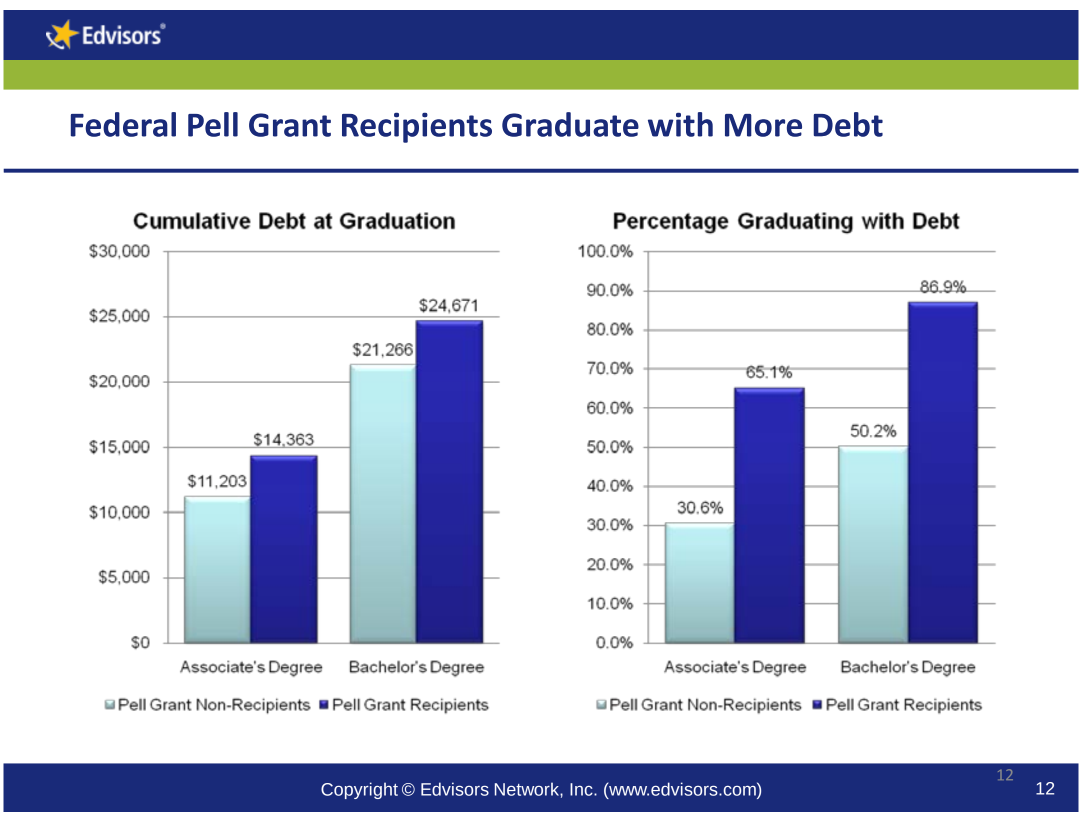
Keynote – Mark Kantrowitz

Measured from almost any perspective, the student loan debt load is significant 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 Publishers, Edvisors.com, provided an overview on the current state of student debt in the United States and its 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 has been increasing such that it has an impact on the overall economy, although a weak one. Annual student loan payments now total 0.4 percent of Gross Domestic Product. Funds expended on repaying student loans are not available for 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 obtaining a degree (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.

Figure 2



- **Effect Before and During College –** As tuition increases, students are faced with choosing between graduating with more debt, attending less costly colleges, and delaying or forgoing college altogether. 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:** Figure 2 shows that even when students from low-income families choose lower cost institutions, they still end up with greater loan debt. Pell Grant recipients (a proxy for low-income students) graduate with more debt than their counterparts. For those earning an associate degree, 65% of Pell recipients vs. 31% of non-Pell recipients have student loan debt. For those earning a bachelor's degree, the debt comparison is almost 90% vs. 50%.

During his presentation, Mr. Kantrowitz also introduced the concept of "good debt," which is 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 can be 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 typical annual income of jobs in their field. In addition, he advised that parents should borrow no more than they can repay in 10 years or by the time they retire, whichever comes first.

Panelists

Laura Choi, a researcher with the Federal Reserve Bank of San Francisco, led 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 for students who fail to graduate from college. This more often occurs when lower-income students struggle to complete their degrees, dropping out when the burden becomes too great (see figures 3 and 4).

Figure 3

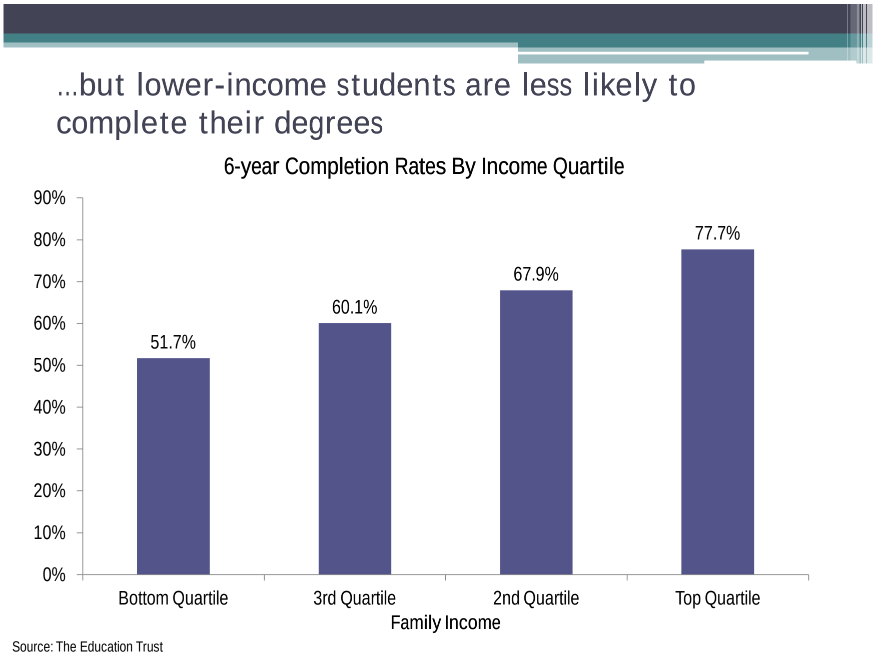
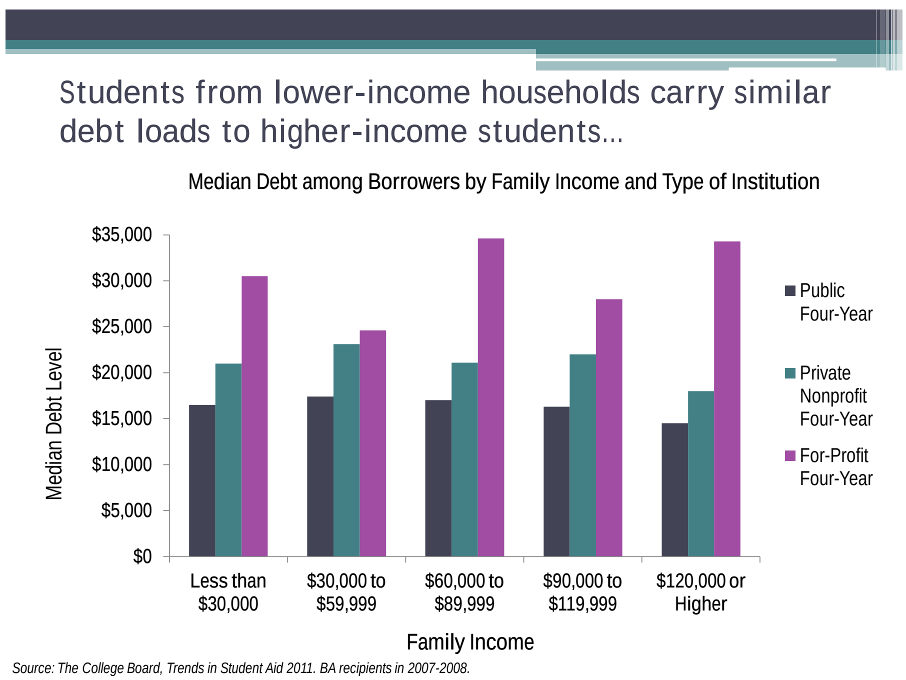


Figure 4



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.

Debbie Cochrane, Research Director at The Institute for College Access and Success (TICAS) provided the freshly-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 the Cal Grant program, which offers more than $2 billion in grants to over 450,000 students annually, and the relatively low tuition at public colleges.

However, Ms. Cochrane noted large growth in California figures. The level of debt has increased 31% over the past five years in the University of California system compared to 25% average debt growth nationally. The share of California students graduating with debt has grown 20% statewide compared to 5% nationally over the past five years, with the share growing 30% in the California State University system. (See figure 5)

Student Debt for 2013 BA Recipients *California vs. the Nation*				
	Average Debt	**5-year change**	**Share with Debt**	**5-year change**
US Average	$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				

Figure 5

The final panel highlighted what some colleges are 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 annually, conferring 20% of bachelor degrees and 50% of graduate degrees in California. More than three-quarters of their 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 UC 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, which focuses on providing guidance on financial decision making.

Rhonda Mohr, the Dean of COTOP, DSPS, Foster Youth Success Initiative, Health Services, Mental Health Services, SFAP, and Veterans Services, who specializes in financial aid for the California Community Colleges Chancellor's Office, provided information about the low level of borrowing among students attending 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. Lower levels of borrowing result from the low enrollment fee ($46 per unit) and the Board of Governors fee waiver (approximately half of their 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.

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 were:

- 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 less likely to complete 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.

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

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

Conclusion

Student debt levels are increasing rapidly, and having a significant – though not dramatic – effect on the overall economy. Low income and low wealth students are disproportionately affected by increasing college costs combined with rising interest rates for student loans. Two effective methods to reduce the negative impacts of student debt are fostering robust grant aid programs which lessen the need for borrowing, and comprehensive financial literacy training to ensure students are empowered to borrow effectively. California's Cal Grant is the largest state based grant aid program in the country, and the state's colleges and universities are working hard to bring financial literacy trainings to students.

Appendix A

Symposium Participants

Featured Presenter:

Mark Kantrowitz, *Publisher, Sr. Vice President, Edvisors.com*

Panel Discussion: Economic and Social Impacts of Student Debt

1. **Laura Choi,** *Federal Reserve of San Francisco*
2. **Dr. Su Jin Gatlin Jez,** *California State University, Sacramento*
3. **Debbie Cochrane,** *The Institute for College Access and Success, Project on Student Debt*
4. **Greg Leib,** *CEO and President, Terra Fossil Wines, Stomp out Student Loans*

Panel Discussion: What Colleges Are Doing To Help

1. **Rachelle Feldman,** *University of California, Berkeley*
2. **Dean Kulju,** *California State University, Office of the Chancellor*
3. **Rhonda Mohr,** *California Community Colleges Chancellor's Office*
4. **Veronica Villalobos Cruz,** *Association of Independent California Colleges and Universities*

Appendix B

Symposium Resources

(Print Versions will have them attached here as well)

Symposium handouts and presentations can be downloaded at {web address pending}

Video of the symposium can be viewed at {web address pending}