California Student Aid Commission
60 years serving students

Summary of Commission Symposium on Student Loan Debt

November 2014 and February 2015

California Student Aid Commission

Since its creation by the Legislature in 1955, the California Student Aid Commission (CSAC) has operated as the principal state agency responsible for administering financial aid programs for students attending public and private universities, colleges, and vocational schools in California. As such, the Commission administers a variety of financial aid programs, the most significant of which is the Cal Grant Program. In 2013-14, CSAC paid nearly $1.7 billion in need-based grants to approximately 300,000 California college students. The Commission has never wavered from its central mission to ***make education beyond high school financially accessible to all Californians***.

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Introduction

As 2014 drew to a close, the total outstanding balance for student loans across the nation was at a record high of $1.31 trillion, according to the Federal Reserve.[1] That is more than the American debt load for both consumer credit cards ($881.8 billion[2]) and automobile loans ($839 billion[3]). Today 40 million Americans have at least one outstanding student loan, according to an analysis by credit bureau Experian.[4] Approximately 7 million Americans are in default on an estimated $100 billion in student loans.[5] 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.[6]

The large and growing student loan obligation has become a concern for policy makers who believe it is having a significant impact on student decisions before, during and after college. The prospect of future high debt loads discourages some students from entering or completing college. In addition, the reality of high monthly payments after college creates a drag on the economy and may cause some graduates to postpone buying homes, marrying or having children.

To explore the impact in California of what has been called a national student debt crisis, the California Student Aid Commission convened a Symposium on Student Loan Debt in November 2014, followed by additional testimony at a hearing in February 2015. As the key state agency responsible for financial aid administration and policy in the state, the Commission has a vital interest in ensuring that higher education is financially accessible for all of those who wish to continue their education after high school. In pursuit of that goal, the Commission oversaw the administration of close to $1.7 billion in Cal Grant awards to nearly 300,000 students in the 2013-14 academic year.

At the Commission's invitation, experts on student debt, education finance, financial aid and education policy participated in the Symposium, discussing the impacts of rising student debt levels and identifying policy options available to the Commission to address the issue. This report provides a summary of their testimony and recommendations.

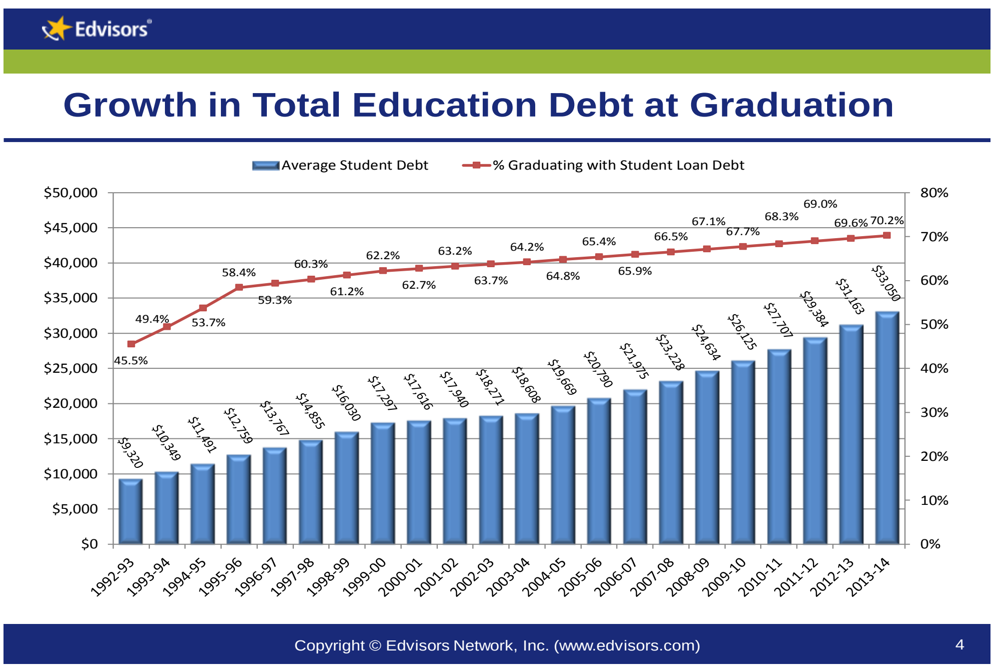
[1] "Student Borrowers Get Break on Loans," Wall Street Journal, Nov. 20, 2014.
[2] "Card Debt Statistics: 2014," http://www.nerdwallet.com/blog/credit-card-data/average-credit-card-debt-household/, Sept. 2014.
[3] "The Rise in Auto Loans Across the US," http://www.bankrate.com/finance/auto/table-auto-loan-debt-per-capita-by-state.aspx, Sept. 2014.
[4] "40 Million Americans Now Have Student Loan Debt," http://money.cnn.com/2014/09/10/pf/college/student-loans/, Sept. 10, 2014.
[5] "Report: Student Loans are Struggles," Sacramento Bee, Oct. 17, 2014.
[6] "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.

Keynote Speaker Mark Kantrowitz

As the keynote speaker for the Symposium, **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 its potential impact on the economy. He also provided a number of recommendations for helping students make better decisions about borrowing money to invest in higher education. 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. Figure 1 (below) shows that 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. Mr. Kantrowitz said the level of debt 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.

Figure 1

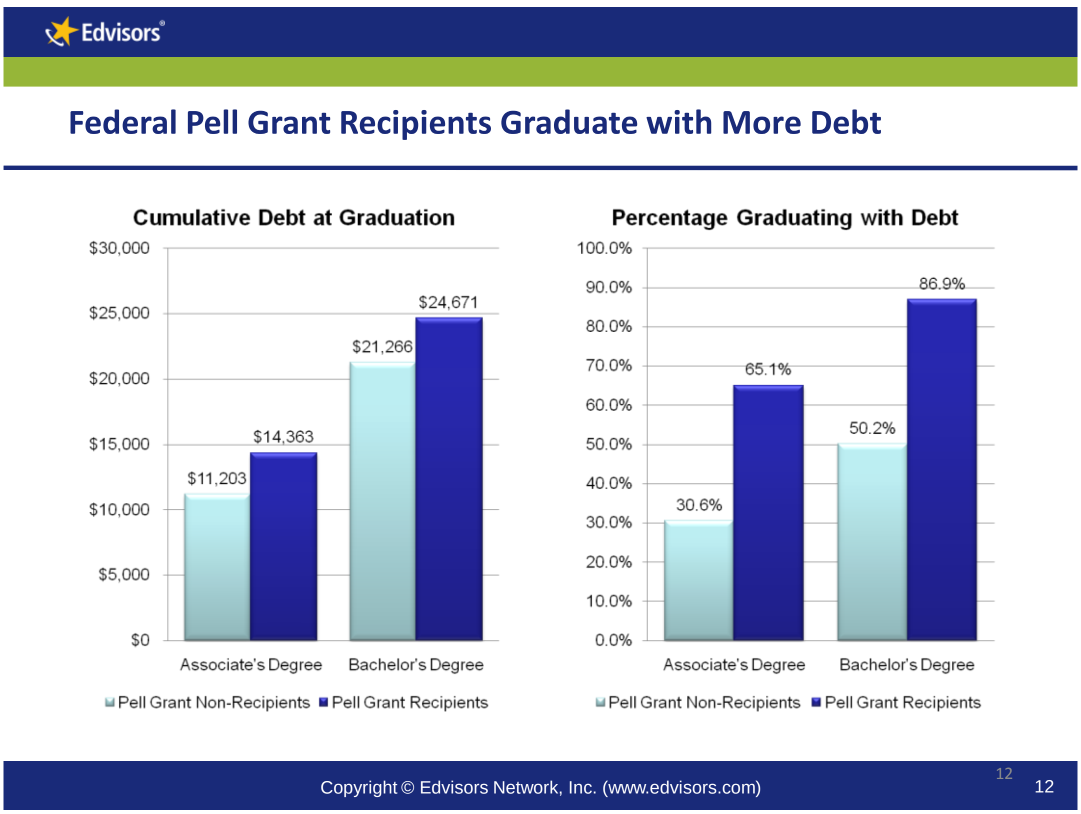


- **Greater Impact on Low-Income Students –** National, state and institutional grants are not keeping pace with increases in college costs, so the net cost for obtaining a degree (the full cost of college minus grant and scholarship funding that does not have to be repaid) is rising. Students from low-income 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.

- **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 (below) 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%.

Figure 2



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, according to Mr. Kantrowitz. 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.

Mr. Kantrowitz offered the following recommendations:

1. **Improve financial literacy training** – Build financial education into the secondary school curriculum and then have a refresher course during college orientation. Provide financial literacy training to parents, counselors and educators as well as students.

2. **Enhance clarity concerning college affordability** – Standardize financial award letters from colleges so they can be easily compared. Make sure loans (requiring repayment) are distinguished from grants (free money) in award letters, and list the net price of attending the college after all grants are taken into account. Use lower suggested loan amounts in award letters to discourage over-borrowing.

3. **Adopt "budget before borrowing"** – Have students put together a budget before they can borrow, including how they will cover costs while in school and how they will repay the loans after graduation. This will help them understand the amount of monthly payments in relation to the money they borrow.

4. **Provide aggressive counseling for high debt students** – While federally required entrance and exit counseling can be fulfilled online, face-to-face counseling has proven most effective, especially for those most at risk for default.

5. **Support peer counseling programs** – Students are more likely to listen to their peers than to the advisors in financial aid offices.

6. **Improve graduate tracking** -- Track whether students are graduating with affordable debt so that colleges can be aware of trends and take pro-active steps to help students avoid future loan defaults.

Panel: Economic and Social Impacts of Student Debt

Laura Choi, Federal Reserve Bank of San Francisco
Debbie Cochrane, The Institute for College Access and Success (TICAS)
Dr. Su Jin Gatlin Jez, California State University, Sacramento
Greg Leib, CEO and President, Terra Fossil Wines

The panel on Economic and Social Impacts of Student Debt began with a presentation by **Laura Choi**, a researcher with the Federal Reserve Bank of San Francisco. She observed that the impact of student loan debt is greater for students who fail to graduate from college. Lower-income students may drop out when the financial burden becomes too overwhelming, leaving them without the college degree necessary for a higher-paying job to make loan payments (see figures 3 and 4 below).

Figure 3

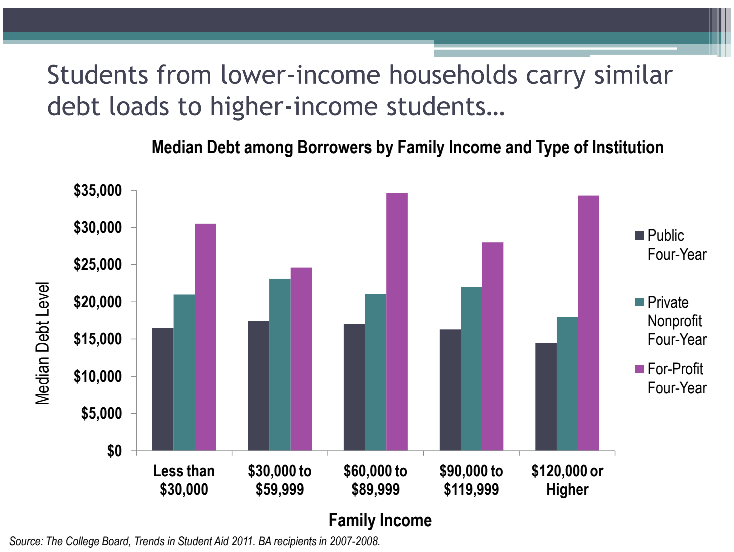
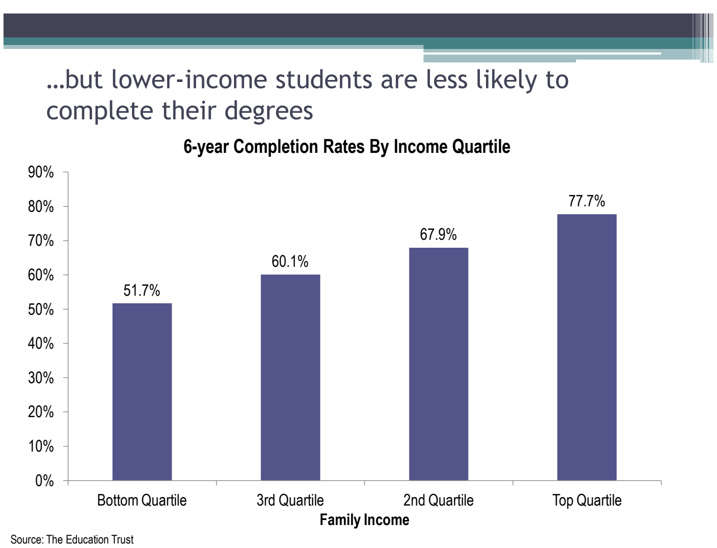


Figure 4



Ms. Choi also 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.

The following are her recommendations:

1. **Children's savings accounts --** Establish savings accounts for children in kindergarten to start familiarizing them with the concept of saving for college early.

2. **Wrap-around services** – Provide low-income students with access to supportive services such as a food pantry and training for accessing tax credits. This will allow students to focus their energies on their school work and persisting to graduation rather than coping with survival.

3. **Know before you owe** – Ensure that students understand the impact of borrowing and are encouraged to borrow the least amount appropriate.

4. **Repayment options --** Raise awareness of repayment options for students and broaden programs to cover more of those with heavy debt loads.

Debbie Cochrane, Research Director at The Institute for College Access and Success (TICAS), provided a report on student debt for 2013 graduates across the country. Based on information from 1,000 colleges, this report indicated:

- 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 and the relatively low tuition at the state's 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 (UC)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 (CSU) system. (See Figure 5 on the next page.)

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				

Ms. Cochrane offered the following recommendations:

1. **More aid --** Reduce the need to borrow by increasing Pell Grants and other sources of aid, including Cal Grants. Use federal leverage to ensure states maintain their investment in public higher education to keep costs down.

2. **Manageable repayments** – Keep loan payments manageable by capping monthly payments in relation to borrower's income and by discharging remaining debt after 20-25 years of repayment. Simplify existing programs and raise awareness of options.

3. **Informed choices** – Help students make informed choices by providing information, encouraging early application for aid so the level of aid available can influence their range of college choices, and making sure information, such as cost calculators and college comparisons, is easy to understand.

4. **College accountability** – Tie federal aid eligibility more closely to student graduation, job obtainment and ability to pay back loans.

5. **Private loans** – Reduce private loan borrowing since students have fewer choices and typically pay higher rates.

Dr. Su Jin Jez, Assistant Professor of Public Policy and Administration, California State University, Sacramento, presented testimony about household income having less impact on a low-income student's ability to enter and complete college than household wealth. Her key points from her 10 years of research on the impact of family wealth on college access 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 college 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 low-wealth families and the non-financial factors that relate to wealth, such as academic achievement and college-going expectations. This can have an impact not only on whether students go to college, but also where they go to college (two-year, four-year, private or public institutions).

Gregory Leib, CEO and President of Terra FOSSIL, Inc., spoke about the benefits of private/public partnerships in addressing student debt. Terra FOSSIL, a private-label brand of wine, partners with retailers and universities to promote the sale of wine with a portion of the profit going toward scholarships, grants and other efforts to reduce student loan debt.

Among his recommendations were to create incentives for companies that have “give-back” contributions built into their pricing structure, including tax credits, and to increase the level of collaboration between higher education, state policy makers and private businesses.

Panel: What Colleges Are Doing to Help

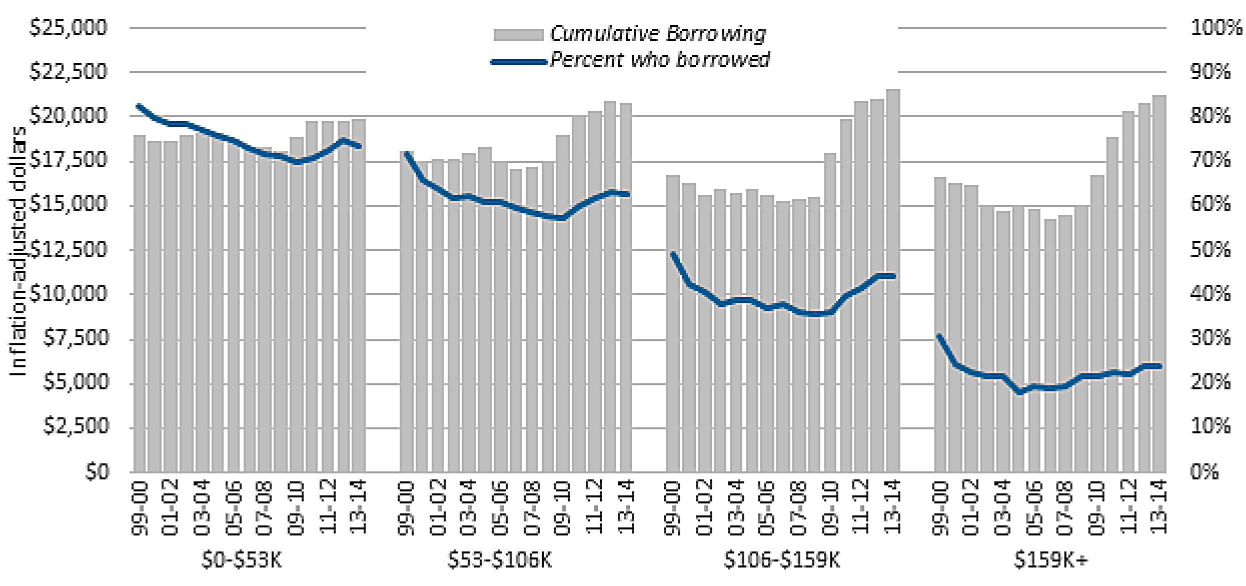
Veronica Villalobos Cruz, Association of Independent California Colleges and Universities
Rachelle Feldman, University of California, Berkeley
Rhonda Mohr, California Community Colleges Chancellor's Office
Dean Kulju, California State University Chancellor's Office

The final panel highlighted what some colleges currently are doing to address the student loan debt situation. **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.

To address concerns about rising student debt, many of the association's colleges incorporate financial literacy education into their curriculums and provide counseling about manageable debt. Ms. Villalobos Cruz noted that the goal is to encourage students to borrow at a reasonable level by strengthening counseling efforts and enhancing financial literacy education. This includes reviewing payment options with students, steering them to online resources, and creating innovative approaches to support students after graduation. Another approach is offered by Simpson University, a fully accredited university serving approximately 1,300 students in Redding, California which provides loan payment assistance if graduates working 30 hours a week are not earning $38,000 or more within 18 months of graduation.

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 (see Figure 6 below).

Figure 6



Initiatives at UC Berkeley have shown that students are interested in financial literacy, Ms. Feldman said, 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 hires and trains students to provide guidance on financial decision making. An effort is under way to develop interactive online modules that would reduce costs while still delivering effective counseling.

Ms. Feldman also recommended that state officials, including the Commission and the Franchise Tax Board, collaborate to reach parents and students early in the college-decision process with information about eligibility for college aid.

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 113 community colleges in 72 different community college districts. Approximately 54,000 students borrowed a total of $290 million in 2012-13 (see Figure 7 below). 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).

Figure 7

	Direct Loans – 2012-13				
		Subsidized		Unsubsidized	
	Students Receiving Loans*	Total Students	Total Received	Total Students	Total Received
	53,732	51,476	$ 167,482,976	32,154	$ 122,110,434
Average Loan			*$ 3,254*		*$ 3,798*
Percent of 2.1 million students	*2.56%*	*2.45%*		*1.53%*	

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.

Ms. Mohr noted that financial literacy is widely recognized as key to successful repayment of student loans. She recommended early financial education that can provide life-long skills for handling money as well as ensuring student success in completing college.

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. To be effective, he recommended that financial literacy curricula be engaging and interactive. He also spoke to the need for any efforts to be both affordable and sustainable so that colleges can build student awareness and participation over time.

Public Policy Institute of California Presentation

Hans Johnson, Senior and Bren Fellow at the Public Policy Institute of California (PPIC)

Hans Johnson provided the Commission with an overview of "Making College Possible for Low-Income Students: Grant and Scholarship Aid in California." This PPIC report, which was published in October 2014, stresses that improving college access and completion rates is vital to the state's future economic prosperity. Earlier research by PPIC projected that the state will need one million more graduates with bachelor's degrees by 2025 to meet workforce needs.

Among the report's key points are:

- Students who receive grants and scholarships are more likely to graduate than their counterparts who do not receive aid. One reason is that such aid encourages students to enroll in four-year institutions where the likelihood of graduation is higher.

- While total financial assistance available through federal grants, Cal Grants, institutional aid and private scholarships has increased over the years, the net cost of attending college has risen (see Figure 8 below). This is particularly true for community colleges and the California State University system; students who enroll in the University of California or many private colleges have not seen a rise in net cost.

Figure 8

Net price for low-income students receiving Title IV funds, 2008-09 and 2011-12					
	In January 2012 $			Not adjusted for inflation	
	2008-09	2011-12		2008-09	2011-12
Community Colleges	$5,759	$6.091		$5.458	$6.091
CSU	7,047	7,473		6,565	7,473
UC	8,795	8,746		8,193	8,746
Private for-profit	29,676	24,190		27,644	24,190
Private non-profit	20,190	19,216		18,807	19,216
Private non-profit research	10,874	11,191		10,130	11,191

Source: PPIC, based on U.S. Department of Education data (IPEDS)

- One consequence of the higher net cost and its impact on low-income students is that many must take out loans to continue their education. But a more pressing concern is that they simply will not attend college at all, or persist to graduation.

The PPIC report offers a series of recommendations including:

1. **Assist with financial aid form completion** – Help more students complete financial aid forms to ensure eligibility for assistance.

2. **Increase financial aid** – Increase available aid for low-income students. Make sure that when new funding is available for higher education, it is invested in those students who need it the most.

3. **Add to ineligible colleges** – Consider adding more colleges to the list of those ineligible for federal aid based on low graduation and high loan default rates.

The report also encouraged policy makers to ensure that increased aid does not drive the cost of college attendance higher. In addition, the report recommends avoiding performance-based requirements for aid eligibility because they do not appear to improve student outcomes.

Conclusion

Student debt levels are increasing, raising concerns about the impact on student decisions before, during and after college. Experts who shared their insights with the Commission were clear that students affected the most are those from low-income and low-wealth families. The potential burden of student loans stops students from applying to a wide range of college choices and may even discourage them from participating in higher education. Once enrolled, students may face financial problems that force them to stop short of a degree. Even those who persist and graduate may face such heavy loan repayment obligations that they postpone life-changing decisions such as purchasing a house, marrying or having a child.

Much of the information provided during the Symposium indicates that the situation in California is similar to the rest of the nation. The Commission-administered Cal Grant program is the largest state-based grant program in the country, yet student debt continues to rise in California. While the state's colleges and universities are working hard to improve student access to financial literacy training, loan defaults after graduation continue at high rate, indicating that students are borrowing too much to comfortably repay or are unaware of repayment options.

The Symposium provided a snapshot of the status of student loan debt in California and offered a variety of recommendations that require action at the federal, state and institution level. High on most lists of recommendations were increasing grant aid and enhancing financial literacy training to ensure students are empowered to borrow effectively.

Appendix A

Symposium Resources

Symposium resources including this document, speaker presentations, and video of the symposium can be viewed and downloaded by visiting:

http://www.csac.ca.gov/student-debt-symposium.asp