California Postsecondary Education Commission

Public Higher Education Performance Accountability Framework Report:

Goal - Access and Affordability

Measure: Average Indebtedness of Graduates at Two- and Four-Year Colleges and Universities

September 2007

This report examines levels of debt incurred by students and families for undergraduate education, and explores the implications significant debt levels may have on access to higher education. Included in the analysis are undergraduate debt levels at California public and private institutions and comparisons of California student debt with student debt levels in similar states across the nation.

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Commission Report 07-19

Summary

In June 2006 the California Postsecondary Education Commission (CPEC) issued a report that resulted from a multi-segment panel discussion on the declining affordability of higher education in California. The report addressed major policy concerns surrounding the issue of college affordability, discussed recent borrowing trends, and examined student debt levels over the past ten years. Concluding the report was a set of principles suggested to guide policies to increase college affordability, including:

- Restoring a higher level of State General Fund support for higher education;
- Freezing student fees for five years;
- Linking future "moderate" fee increases to growth in personal income, increases in the consumer price index, or a percentage of the cost of attendance;
- Factoring in the steep rise in housing costs into financial aid awards;
- Recognizing and factoring opportunity costs into the financial aid equation; and
- Decentralizing the Cal Grant award process so that it is administered at the campus level.[1]

[1] Developing a Statewide Higher Education Affordability Policy. California Postsecondary Education Commission. June 2006. http://www.cpec.ca.gov/completereports/2006reports/06-10.pdf

As part of its ongoing series of accountability reporting, the Commission revisits the issue of affordability in higher education and its impact on student access in this report. Specifically, this report examines student debt levels upon entering loan repayment and evaluates the impact of rising costs on college attendance.

Average Indebtedness of Graduates: Why This Measure Matters

The performance measure "Average Indebtedness of Graduates" evaluates California's progress for the accountability goal of Access and Affordability. This report examines levels of debt of California public college and university students, as well those attending private and independent colleges and universities, upon entering loan repayment. Maintaining affordable and accessible postsecondary education systems is a guiding principle of the Master Plan for Higher Education, and its subsequent revisions. Ensuring that students can attend college without acquiring substantial debt is important for the following reasons:

1. Significant levels of debt are impacting graduates' freedom to make employment choices, including entering public sector careers, such as teaching and social work.

Eighteen percent of California's public college graduates and 29% of private college graduates have debt that would exceed manageable levels by accepting a job with earnings equivalent to a teacher's starting salary.[2] This fact may also prompt some students to pursue courses of study that are a poor match for their interests and abilities because of the promise of higher potential compensation upon employment in the field.

2. Many students and families are prone to "debt aversion" and the current financial aid system may be creating access barriers for the very populations who assistance is intended to help.

Research concludes that certain populations, including low-income, students from groups historically underrepresented in college, and first-generation college attendees, are more wary of accumulating debt, particularly if they are not fully confident in their academic abilities.[3]

3. Some student populations are more vulnerable to defaulting on loan repayment than others. All borrowers must have a complete understanding of the terms of their borrowing contracts.

Loan default risk factors are especially high for students from lower income families, students who leave school

Public Higher Education Accountability Framework

The public's investment in higher education should be measured by outcomes. As the California's independent higher education planning and coordinating body, the Commission is in a unique position to assess performance without bias or conflict of interest. Under State law, the Commission is the only public agency with the data needed to assess student success across the University of California, California State University and California Community College systems. The Commission uses this data, coupled with other relevant State and national higher education data, to compile the performance assessment presented here. The Commission has put a priority on improving public confidence in the administration and delivery of public postsecondary education by increasing public knowledge of student outcomes, transparency of higher education decision making, and efficient achievement of a well educated and prepared workforce and population.

[2] State PIRG's Higher Education Project. Paying Back, Not Giving Back: Student Debt's Negative Impact on Public Service Career Opportunities. April 2006.
[3] Pamela Burdman, Program Officer for the William and Flora Hewitt Foundation, as presented to the California Postsecondary Education Commission on June 27, 2006. http://media.cpec.ca.gov/archive/cpec2006june27_28/Item2a.wma

short of degree completion, and students who have multiple loan sources.[4]

Cost Climate for Today's Families

Tuition costs have jumped substantially over the last decade despite the fact that California public colleges and universities remain high in value and affordability when compared to other states. However, tuition is just the "tip of the iceberg" of overall cost of college attendance. Today's families are facing numerous economic pressures in addition to the rising costs of college.

The financial burdens of paying for college, as well as other household expenses, has extended far beyond the ability of lower-income families to comfortably bear and has even begun to impact middle- and even upper-middle income families. In addition to sharp increases in the cost of college attendance, other sources of increased financial burden include:

- A rise in personal healthcare costs;
- Families taking on greater consumer debt;
- Decreasing rates of personal savings;
- Retirement plans shifting from an employer-paid benefit to increased employee contribution; and
- Growing income inequity between the wealthy and poor.[5]

Sending one child to college is a tremendous financial undertaking for lower- and middle-class families, and many families face the reality of having multiple children in college at the same time. Even the more affordable pathway of transferring to a baccalaureate-level college or university from a community college can become an overwhelming burden to a family with multiple college-aged children. If families do not have a financial plan for paying for college and the knowledge to navigate the complex world of college lending, the result can be compromised retirement savings or incurrence of higher interest debt.

Student Debt Data

Determining a suitable data source to answer questions about student debt is challenging and, ultimately, all currently available sources are incomplete in providing information on the full spectrum of student debtedness. The EdFund, a credible source of California student financial aid information, provides data specific to Stafford loans. While Stafford loans make up a significant share of college loan borrowing, increasingly, student acceptance of private loans, such as second mortgages or home equity loans, is becoming a more common practice. EdFund figures do not reflect private loan debt. Moreover, EdFund data do not reflect credit card debt, one of the easiest and most available types of debt for students to acquire.

The Institute for College Access and Success, another source of data regarding student borrowing, manages an on-line data system (http://economicdiversity.org) where researchers can obtain financial aid data from all types of Carnegie Classified institutions from every state. These data are also limited to the debt accumulation of Stafford loans but the website allows for state-by-state, and institution-by-institution comparisons of a variety of variables, such as tuition costs, grants awarded, and student debt accumulation.

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[4] Woo, J. Clearing Accounts: The Causes of Student Loan Default. EdFund. 2002. http://www.edfund.net/pdfs/i-95.pdf

[5] Perna, L., Li, C. College Affordability: Implications for College Opportunity. Graduate School of Education, University of Pennsylvania. 2006. http://repository.upenn.edu/cgi/viewcontent.cgi?article=1032&context=gse_pubs

DISPLAY 1: Average Debt for Undergraduate Education at UC and CSU Institutions*

Institution Name	Average Debt of Graduates	Segment Average Debt of Graduates
University of California		
University of California, Los Angeles	$14,431	$13,824
University of California, Riverside	$14,814	
University of California, Irvine	$13,587	
University of California, Davis	$12,701	
University of California, San Diego	$14,689	
University of California, Berkeley	$13,171	
University of California, Santa Cruz	$13,374	
University of California, Santa Barbara	NA	
California State University		
California State University, Monterey Bay	$8,263	$10,850
California State University, Bakersfield	$4,144	
California State University, San Marcos	$13,112	
University of California, San Francisco	NA	
California State University, Stanislaus	$16,200	
California State University, Long Beach	$6,319	
California State University, Los Angeles	NA	
California State University, Dominguez Hills	$15,232	
California State University, East Bay	$12,312	
Sonoma State University	$5,030	
California Maritime Academy	NA	
California State University, Fullerton	$14,071	
California State Polytechnic University, Pomona	$11,258	
California State University, San Bernardino	NA	
California State Polytechnic University, San Luis Obispo	$13,788	
California State University, Northridge	$5,400	
San Francisco State University	$15,376	
San Jose State University	$5,733	
San Diego State University	$14,500	
California State University, Sacramento	$10,868	
California State University, Chico	NA	
California State University, Fresno	$10,958	
Humboldt State University	$12,730	

*Collected from Institute for College Access and Success (EconomicDiversity.org). Academic Year 2004-05. Figures include Stafford loan debt only.

Lastly, the National Center for Education Statistics (NCES) conducts the National Postsecondary Student Aid Study (NPSAS). Although NPSAS data does not provide institution or segment specific information, it does distinguish between public and private, doctorate granting and non-doctorate granting institutions. The NPSAS data, although not as current as EdFund data, is a reliable source of information due to a thorough sampling of California data.

Display 2 below displays NPSAS data[6] that identify the cumulative debt of students and families for undergraduate education in California and for selected comparison states. It is important to note that PLUS loans, loans that are offered to parents to help finance their child's education, although not utilized by as many families as the student-borrowed loans, can carry balances that are equal to and greater than other student loans. The debt levels shown in Display 1 for the University of California and California State University do not reflect Parent PLUS loan borrowing; however, Display 2 provides an average amount of PLUS loan debt by public four-year, private four-year, and public two-year sectors.

DISPLAY 2: Average Cumulative Debt for Undergraduate Education by Sector, California and Comparator States*

	Cumulative borrowed for undergraduate education (Percent of students with loan debt)	Cumulative borrowed for undergraduate education (Average)	Cumulative PLUS loans (Percent of Parents)	Cumulative PLUS loans (Average)
PUBLIC 4-YEAR SECTOR				
Texas	57.0	$12,543	8.1	$9,914
California	50.3	$12,459	6.6	$12,066
New York	52.7	$12,321	9.6	$12,429
Illinois	57.4	$11,180	8.7	$11,901
PRIVATE 4-YEAR SECTOR				
New York	69.8	$15,946	13.8	$18,767
California	64.6	$15,243	14.6	$23,203
Illinois	66.5	$15,107	13.3	$14,762
Texas	59.7	$14,677	11.8	$15,313
PUBLIC 2-YEAR SECTOR				
California	14.8	$9,214	1.4	$12,742
Texas	20.6	$7,836	1.6	low n
New York	35.5	$7,380	4.0	$7,434
Illinois	17.9	$6,689	1.0	low n

*Collected from NPSAS 2004 study, National Center for Education Statistics. Figures include all federal, state, and institutional student loans, in addition to some alternative private student loans.

[6] National Postsecondary Student Aid Study (2004). National Center for Education Statistics. Data provided by NCES Analyst, Aurora D' Amico, via email, August 30, 2007.

Credit Card Debt

Researchers who examine financial aid policy and trends know anecdotally, through word of mouth, and through personal experience, that there are many common methods of financing college that are not easily quantifiable. Families are turning to banks for private lending and/or using home equity loans or lines of credit to help pay for college. Credit card use by students is easier to evaluate than other forms of private borrowing; a report released by Nellie Mae examines trends in credit card debt incurred by college students.

The Nellie Mae study, released in 2005, reveals that 91% of students who are in their final year of college have at least one credit card, with 56% of those students having four or more credit cards. Students in their final year carry an average credit card balance of $2,864, and report that textbooks, other school supplies, and food are the primary expenses charged to their credit cards. The Nellie Mae study points out that credit card use has declined since the previous study in 2001. Although this is an encouraging trend, credit cards remain an easy and accessible form of student borrowing that can carry a large burden if students are not properly educated on and disciplined with personal financial management.

California by Comparison

Using the 2004 NPSAS data, Commission staff compared indebtedness upon graduation for the top 15 states by Gross State Product (GSP), under the assumption that states with higher GSP figures would compare most closely with the California economy than that of the overall national average. Data collected from various sources differs minimally, but the results of data collected from EconomicDiversity.org show California to have the lowest average debt upon graduation among the 15 top GSP states. While California does have reasonable student fee levels by comparison, student fees constitute only a fraction of the overall cost of college attendance. For a complete list of the 15 highest GSP states and corresponding tuition and debt figures, please refer to the Appendix.

A possible explanation for California's lower debt levels compared to other states could be that the populations that are most "debt averse" are found in larger numbers in California than most other states. Pamela Burdman, a Program Officer with the William and Flora Hewitt Foundation, conducted a research study on college loan "debt aversion" and concluded that the populations most wary of accumulating debt are a substantial percentage of the overall population in California. The most debt averse populations include low-income families, students from racial-ethnic groups historically underrepresented in postsecondary education, and households where the parents have not attended college.[7] Assuming that these factors are the substantive reason for lower student debt levels accrued by California students, we are faced with a question of whether the fear of taking on debt is creating an access barrier that is more prevalent in California than in other states.

Updating Financial Aid Policies

An article released in May 2007, by the American Enterprise Institute, argues that the national financial aid policies that were initiated almost 50 years ago are operating under an outdated system of incentives that are no longer necessary. Primarily, back in the 1960s, lenders did not have incentive to offer loans to lower-income college students, not only because they were perceived as having a higher risk of default, but they also made up a small portion of the total borrowing community. The climate has now changed, however, and college loan lending is big business with a market that extends well beyond low-

[7] Pamela Burdman, Program Officer for the William and Flora Hewitt Foundation, as presented to the California Postsecondary Education Commission on June 27, 2006. http://media.cpec.ca.gov/archive/cpec2006june27_28/Item2a.wma

income families. In addition, private loans, which were almost non-existent as recent as the mid-1990s, now make up 25% of federal student loans.[8] Fredrick Hess, Education Policy Director at the American Enterprise Institute, argues that steps need to be taken to bring national financial aid policy up to date with current circumstances. Among his suggestions are policing against suspicious and low-quality lending practices, placing greater limitations on subsidies for upper-income families in order to increase the number and amount of need-based grants, and examining the efficiency of the relationship between borrowers, lenders and financial aid officers.

Closing Thoughts

In conclusion, rising tuition and fees and increased cost of living are putting a squeeze on lower-income to upper middle-income families, causing students and parents to incur substantial debt. The debt figures highlighted in this paper should be considered the minimum average of debt incurred. Due to insufficient means of measuring all types of family and student borrowing the Commission is unable to pinpoint a more accurate estimate that includes all forms of private loan borrowing, including borrowing on the equity of the family home.

California institutions remain affordable compared to other states. However, this fact does not mean that California's commitment to maintaining affordable and open access to higher education, as set forth by the Master Plan, is not eroding. This erosion is evident in the gradual but steady reduction of General Fund money appropriated to support public higher education over the last 15 years. In order to preserve the 50-year commitment to accessible and affordable higher education in California, policymakers must commit to restoring General Fund allocation to higher education, as well as increase grant dollars to students in need.

[8] Hess, F. Footing the Tuition Bill: There Must Be a Better Way. American Enterprise Institute. May 2007.

Appendix

National Student Financial Aid Study 2004:

Cumulative Undergraduate Debt and Cumulative PLUS Loan Debt for Sampled States

PUBLIC 4-YEAR SECTOR	Cumulative borrowed for undergraduate education (Percent of students with loan debt)	Cumulative borrowed for undergraduate education (Average)	Cumulative PLUS loans (Percent of Parents)	Cumulative PLUS loans (Average)
Oregon	62.5	$13,722	13.3	$9,668
Minnesota	64.7	$13,661	4.9	low n
Indiana	56.5	$13,395	13.4	$12,506
Tennessee	61.4	$13,282	8.0	$10,053
Nebraska	59.0	$13,177	12.9	$7,883
Georgia	52.2	$13,031	5.3	$10,163
Delaware	55.1	$12,585	22.9	$16,227
Texas	57.0	$12,543	8.1	$9,914
California	50.3	$12,459	6.6	$12,066
New York	52.7	$12,321	9.6	$12,429
Connecticut	56.5	$11,891	11.0	$8,228
Illinois	57.4	$11,180	8.7	$11,901

PRIVATE 4-YEAR	Cumulative borrowed for undergraduate education (Percent of students with loan debt)	Cumulative borrowed for undergraduate education (Average)	Cumulative PLUS loans (Percent of Parents)	Cumulative PLUS loans (Average)
Connecticut	56.6	$16,366	12.6	$18,358
Minnesota	70.9	$16,133	15.4	$13,737
Georgia	68.8	$15,956	17.9	$22,238
New York	69.8	$15,946	13.8	$18,767
California	64.6	$15,243	14.6	$23,203
Illinois	66.5	$15,107	13.3	$14,762
Oregon	58.8	$14,691	11.2	$10,913
Texas	59.7	$14,677	11.8	$15,313
Nebraska	71.6	$14,123	15.3	$10,110
Indiana	67.8	$14,050	12.6	$13,832
Tennessee	65.0	$13,565	11.9	$12,955
Delaware	70.0	$12,942	10.0	$11,542

PUBLIC 2-YEAR SECTOR	Cumulative borrowed for undergraduate education (Percent of students with loan debt)	Cumulative borrowed for undergraduate education (Average)	Cumulative PLUS loans (Percent of Parents)	Cumulative PLUS loans (Average)
California	14.8	$9,214	1.4	$12,742
Connecticut	15.5	$8,963	2.9	low n
Oregon	28.5	$8,051	1.7	low n
Minnesota	50.4	$7,904	2.0	low n
Texas	20.6	$7,836	1.6	low n
Indiana	33.2	$7,654	2.2	low n
New York	35.5	$7,380	4.0	$7,434
Illinois	17.9	$6,689	1.0	low n
Georgia	15.5	$6,407	1.3	low n
Tennessee	31.9	$6,015	2.0	low n
Nebraska	40.7	$4,947	4.3	low n
Delaware	25.4	$4,310	0.0	low n

Institute for College Access and Success, EconomicDiversity.Org
University of California and California State University Debt Averages

Four-Year Public Institution Averages, Top 15 States by Gross State Product

Institution state	Tuition and fees average per FTE (2004-05)	Average debt of graduates (2004-05)
Pennsylvania	$ 7,168	$ 19,517
Washington	$ 5,765	$ 18,523
Michigan	$ 6,817	$ 18,292
Ohio	$ 8,343	$ 18,268
Virginia	$ 7,279	$ 15,838
Florida	$ 4,075	$ 15,818
North Carolina	$ 4,632	$ 15,654
Illinois	$ 5,769	$ 15,251
New Jersey	$ 7,906	$ 14,965
Texas	$ 4,752	$ 14,948
Georgia	$ 4,218	$ 14,807
New York	$ 5,630	$ 14,676
Massachusetts	$ 6,763	$ 13,678
Maryland	$ 7,814	$ 13,662
California	$ 4,828	$ 11,682