SECTION 10

Texas Higher Education & Student Debt Policy

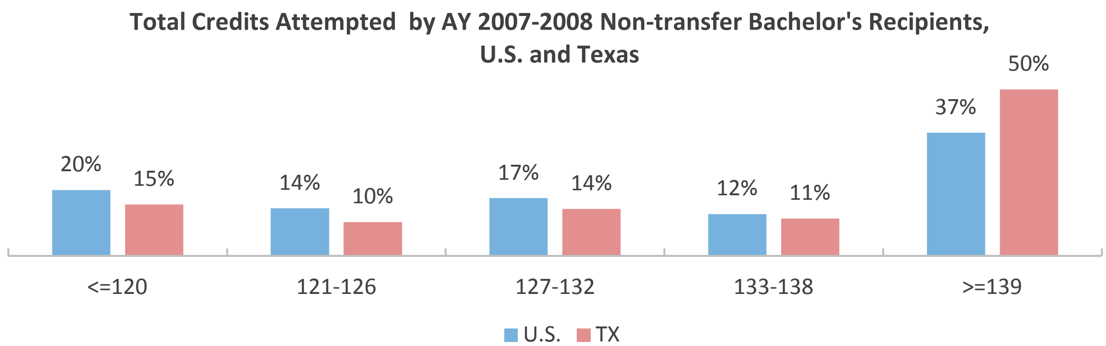
60x30TX: New Strategic Plan Targets Debt-to-Income Ratio

In 2016, the Texas Higher Education Coordinating Board (THECB) launched a new, 15-year strategic plan for Texas higher education: 60x30TX ("sixty by thirty Texas"). The plan establishes four core goals:

1) By 2030, at least 60 percent of Texans ages 25-34 will have a postsecondary credential or degree.
2) By 2030, at least 550,000 students in that year will complete a certificate, associate, bachelor's, or master's degree from a Texas public, independent, or for-profit college or university.
3) By 2030, all graduates from Texas public institutions of higher education will have completed programs with identified marketable skills.
4) By 2030, undergraduate student loan debt will not exceed 60 percent of first-year wage for graduates of Texas public institutions.

The first two goals continue the work towards expanded access and success begun under Closing the Gaps, the previous strategic plan, but the latter two represent a new direction for the THECB. This new direction should help to address worrying trends in student debt and graduate underemployment*. The plan has identified two additional targets to reach the .6 debt-to-income ratio:

a) Decrease the excess semester credit hours (SCH) that students attempt when completing an associate or bachelor's degree.
b) Work to limit debt so that no more than half of all students who earn an undergraduate degree or certificate will have debt.



The graph above applies only to students who earned their bachelor's degree after attending only one postsecondary institution. This presents an incomplete picture – for AY 2007-2008, 56 percent of bachelor's recipients nationally and 69 percent in Texas had attended more than one institution – but also strongly suggests that Texas students attempt even more excess credits on average before earning their degrees (a standard bachelor's degree requires 120 credits). Transfer students tend to have more excess credits due to curriculum misalignments and other factors.

While meeting the target for excess credits attempted will require substantial reductions, about half of undergraduate degree completers borrow student loans. However, this is partially because students with a greater need to borrow student loans tend to have lower odds of completing their degrees; students with more resources who do not need to borrow are overrepresented among completers. Without significant changes to students' costs and/or resources, increasing the number of minority and low-income students (an explicit goal of 60x30) who graduate will raise the percentage of graduates who borrow. Conversely, if grant funding does not increase significantly, then increasing the rate and amount of borrowing might be necessary for financially needy students who would otherwise drop out to persist to graduation. At current costs, making progress towards completion goals while holding the borrowing rate at 50 percent *and* containing the debt burdens of graduates will likely require additional grant funding.

*"Underemployment" includes cases in which graduates are working part time despite wanting to work full time and cases in which graduates are working in positions that do not require the skills associated with their credentials.

Sources: 60x30TX: Texas Higher Education Coordinating Board. THECB 60x30 Strategic Plan (http://www.thecb.state.tx.us/reports/PDF/6862.PDF); Credits attempted: Analysis of US Dept of Education, National Center for Education Statistics, Baccalaureate and Beyond 2008-2012 (http://nces.ed.gov/surveys/b&b/).

Closing the Gaps Brought Major Increases in Enrollments and Awards, Despite Some Unreached Targets

In 2000, Texas committed itself to a 15-year plan for higher education improvement known as "Closing the Gaps". The plan identified participation, success, excellence, and research as its goals and established targets to meet them. The Texas Higher Education Coordinating Board (THECB) commissioned a study to assess the impacts to the Texas economy if the goals of Closing the Gaps are met. The study found that meeting the Closing the Gaps goals would result in:

- $489.6 billion* increased annual spending until 2030
- $194.5 billion increased annual gross state product until 2030
- $121.9 billion increased annual aggregate personal income until 2030
- 1,023,281 additional permanent jobs by 2030

Closing the Gaps Final Results and Targets

	2000 Actual	2015 Actual	2015 Target
Participation	baseline	+605,114	+630,000
Success	116,235	258,795	210,000
Excellence	Goal: to substantially increase the number of nationally recognized programs or services in Texas by 2015		
Research	5.5%	5.0%***	6.5%

While Texas made significant progress in several key areas—most notably, Participation and Success – many targets were not reached, even within those areas.

Progress in Participation

As of fall 2015, the state met 96 percent of the overall participation target. African-American enrollment fell for the third straight year but still exceeded 170 percent of the target. White enrollment fell for the sixth straight year and reached only 31 percent of the 101,248 targeted increase. Hispanic enrollment increased more than any other group – over 136 percent since 2000 – but the increase still fell short of the 438,704 target by 109,004 students.

Progress in Success

Texas first exceeded the overall success goal of awarding 210,000 undergraduate credentials in a single year in FY 2011, and awards have continued to increase since. The state also met six of nine affiliated targets; the remaining three relate to completion of science, technology, engineering, and math (STEM) degrees and of teaching credentials. Hispanic students earned 700 more STEM awards in FY 2015 than FY 2014, which was the largest annual percent increase of the three major ethnic groups.

Progress in Excellence

The University of Texas at Austin achieved and maintained a key excellence target – to have a research institution ranked in the top ten in the U.S. – by tying for number one among U.S. public research universities for the second straight year, according to the Center for Measuring University Performance. Many other Texas institutions and programs earned national recognition for excellence since 2000.

Progress in Research

Although research and development expenditures in FY 2015 were $1.06 billion over the $3 billion target, Texas achieved no net gain in its share of federal science and engineering R&D obligations. After peaking at 6.1 percent in 2003, Texas' share has fell to 5.0 percent, the lowest in over a decade, in FY 2013 and FY 2014. Reaching 6.5 percent of the national total in FY 2014 would have required almost $450 million in addition to the $1.36 billion actually received.

*All gains in 2006 dollars; ** A Tale of Two States – And One Million Jobs" by the Perryman Group; ***FY 2014

Sources: Closing the Gaps Goals and Progress: Texas Higher Education Coordinating Board, Accelerated Plan for Closing the Gaps by 2015, April 2010 (http://www.thecb.state.tx.us/reports/PDF/2005.PDF?CFID=1657207&CFTOKEN=63245910), THECB. *Closing the Gaps Final Progress Report,* June 2016 (http://www.thecb.state.tx.us/reports/DocFetch.cfm?DocID=8138&Format=PDF)All Else: The Perryman Group, A Tale of Two States – And One Million Jobs: An Analysis of the Economic Benefits of Achieving the Future Goals of the "Closing the Gaps" Initiative of the Texas Higher Education Coordinating Board, March 2007 (http://www.thecb.state.tx.us/reports/PDF/1345.PDF?CFID=1657207&CFTOKEN=63245910).

Funding for Many Texas Financial Aid Programs Increased in 2014-2015 Biennium

Major Texas Financial Aid Programs
Funding in 2012-2013 (Adjusted) and 2014-2015 Biennia

	2012-2013 Adjusted Biennium Funding (in millions, rounded)	2014-2015 Biennium Funding (in millions, rounded)	Percent Change
Towards EXcellence Access and Success (TEXAS) Grant	$579.7	$724.6	25%
Texas Educational Opportunity Grant (TEOG)	$23.1	$27.8	20%
Texas Work-Study	$17.7	$18.8	6%
Tuition Equalization Grant (TEG)	$168.8	$180.1	7%
B-on-Time Loan	$107.1	$112.0	5%
Total	$896.4	$1,063.3	19%

Funding for several of Texas' major higher education financial aid programs was increased from the adjusted 2012-2013 Biennium to the 2014-2015 Biennium. Overall, funding for the five major programs was increased by 19 percent, from about $900 million to over $1 billion. This is due in part to a decrease in funding in the 2012-2013 Biennium, as the current increases bring funding levels for many of the programs back to pre-cut levels. All state grant programs assist student with financial need, promoting access to higher education to low-income students while helping to limit their need to borrow student loans.

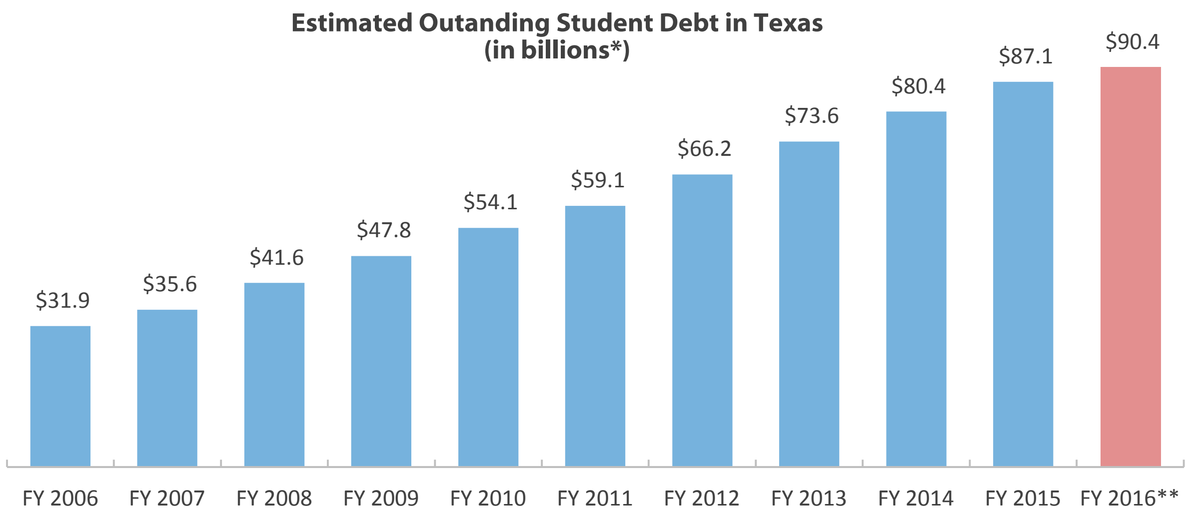
Other Major Texas Financial Aid Programs
Funding in 2012-2013 (Adjusted) and 2014-2015 Biennia

	2012-2013 Adjusted Biennium Funding (in millions, rounded)	2014-2015 Biennium Funding (in millions, rounded)	Percent Change
Top Ten Percent Scholarship	$39.6	$39.6	0%
Developmental Education	$4.0	$4.0	0%
Texas Research Incentive Program	$70.0	$35.6	-49%
Professional Nursing Shortage Reduction Program	$29.6	$33.7	14%
Family Practice Residency	$13.3	$5.0	-62%
Advanced Research Program	$1.0	$1.0	0%
Teach for Texas Loan Repayment Assistance Program	$1.0	$4.4	343%
Physician Education Loan Repayment Program	$5.7	$33.8	495%

Source: Texas Higher Education Coordinating Board Presentation, "Higher Education Summary of the 83rd Texas Legislature (Regular Session)," July 2013 (http://www.thecb.state.tx.us/).

Outstanding Student Loan Debt in Texas Tops $90 Billion

The rapidly rising national student loan debt has garnered much attention over the past few years. As of June 30, 2016, the total volume of outstanding student loan debt in the United States was estimated at $1.28 trillion, representing an increase of about $76 billion over the previous year and $153 billion over the previous two years. As of the end of 2015, the estimated outstanding student loan volume in Texas was over $87 billion, up about 8.4 percent from the previous year compared to 6.5 percent nationally. State-level data are not available through 2016; however, if Texans' relative share of all student debt in the United States in 2015 (just over 7 percent, the highest in over a decade) has remained roughly constant or continued to grow, then student debt held by Texans exceeded $90 billion for the first time as of June 30, 2016.



At the state and national level, the majority of the outstanding student loan debt comes from federal loans, including Federal Family Education Loans (FFEL)***, Federal Direct Loans, and Federal Perkins Loans. Private education loans, which generally do not provide accommodations like income-linked repayment plans, deferments, or forgiveness, account for about 17 percent of student debt nationally. Texas students are more dependent on federal aid, including loans, than students nationally. In Award Year (AY) 2014-2015, 82 percent of student financial aid in Texas came from federal sources, while just 69 percent of student aid nationally is federal. In Texas, 58 percent of all direct aid is in the form of loans, while 48 percent of direct aid in the U.S. overall comes from loans.

Individual student loan debts have grown along with the overall debt loads. From 2004 – 2014, the average student loan balance in the U.S. increased by 56 percent (more than double the rate of inflation over the same period).

*Estimates are based on per capita student debt averages from the Federal Reserve Bank of New York Consumer Credit Panel, which excludes persons without credit reports and persons living in counties where fewer than 10,000 people have credit reports. The result for a given year is adjusted by the same factor by which the result of this methodology for the United States as a whole deviates from the reported United States total outstanding student debt for that year. This adjustment, which was not made in previous editions of SOSA, has been applied to all years.
**FY 2016 data is projected based on data up to the third quarter of the year.
***The FFEL Program ended in 2010, but borrowers are still making payments on outstanding FFEL balances.

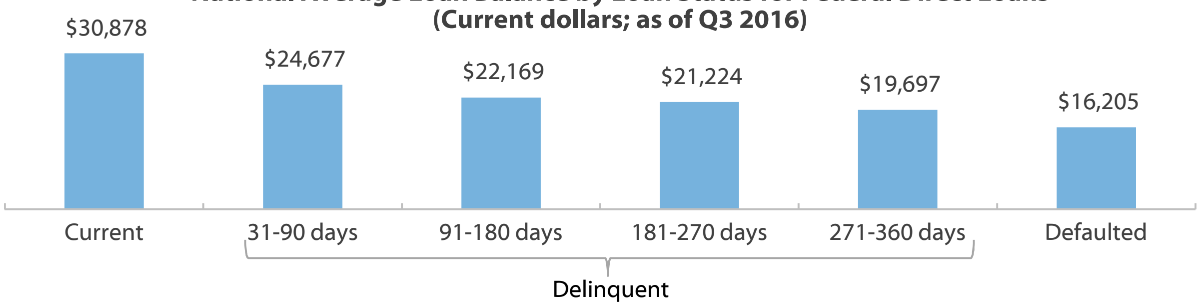
Sources: U.S. Student Loan Debt Estimate: Federal Reserve Bank of New York (FRBNY), Quarterly Report on Household Debt and Credit, Nov. 2016 (https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2016Q3.pdf), Texas Student Loan Debt Estimate: FRBNY Quarterly Report on Household Debt and Credit, Q4 2011 through Q3 2016, and Household Debt and Credit Statistics by County (http://www.newyorkfed.org/microeconomics/data.html), Sources of Aid: Texas Higher Education Coordinating Board, Report on Student Financial Aid in Texas higher Education for Fiscal Year 2013, (http://www.thecb.state.tx.us/reports/PDF/3578.PDF); U.S. Department of Education, Federal Student Aid Data Center (http://federalstudentaid.ed.gov/datacenter/); The College Board. Trends in Student Aid 2014 https://secure-media.collegeboard.org/digitalServices/misc/trends/2014-trends-student-aid-report-final.pdf); Individual Student Loan Balance Since 2005: FRBNY, Student Loan Debt by Age Group (http://www.newyorkfed.org/studentloandebt/); Markets: Rohit Chopra, Remarks to 2013 ABS East Conference via Housing Wire (http://www.housingwire.com/articles/27303-cfpb-student-loan-debt-hijacks-the-housing-recovery), Meta Brown, FRBNY & Postsecondary National Policy Institute, Student Debt Overview (http://www.newyorkfed.org/regional/Brown_presentation_GWU_2013Q2.pdf); Entrepreneurship: Young Invincibles, Borrowers in Distress: A Survey on the Impact of Private Student Loan Debt, May 2013 (http://younginvincibles.org/wp-content/uploads/2013/05/Borrower-in-Distress-5.8.13.pdf), The U.S. Small Business Administration, Frequently Asked Questions About Small Business, Sept. 2012 (http://www.sba.gov/sites/default/files/FAQ_Sept_2012.pdf)

Students Who Borrow More Are Less Likely to Default

Concerns over student debt tend to focus on two trends: high default rates and high loan balances. Default rates have been slowly declining in recent years, but far too many student loan borrowers continue to default. Nationally, about one in nine student loan borrowers who entered repayment in fiscal year 2013 defaulted in that year or the next two (a three-year cohort default rate [CDR] of 11.3 percent), but lifetime default rates are much higher. Among federal Direct Loan borrowers in repayment, 17 percent – more than one in six – were in default as of June 2016. The federal Office of Management and Budget predicts that 20 to 25 percent of undergraduate Direct Loan borrowers who entered repayment in FY 2016 will default over the next 20 years.

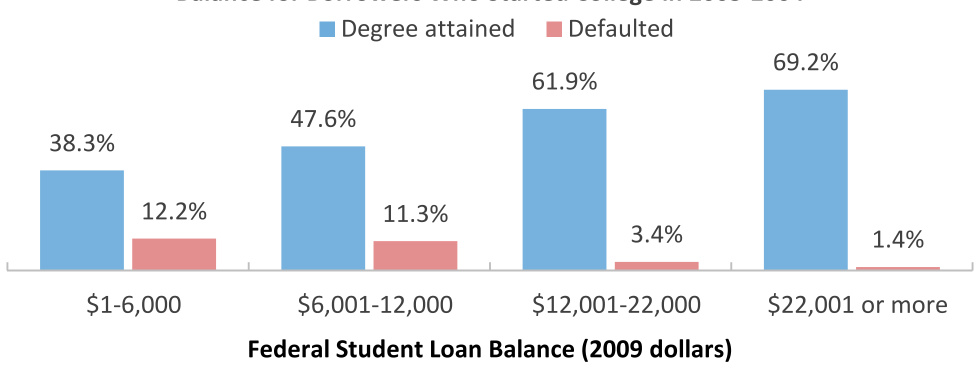
Although the average loan balance continues to climb, the relationship between this trend and default rates is not straightforward. In fact, borrowers who are current on their loans tend to have higher balances, while those in delinquency or default tend to have lower balances.

National Average Loan Balance by Loan Status for Federal Direct Loans (Current dollars; as of Q3 2016)



As shown in the chart above, the most severely delinquent and defaulted loans tend to have smaller balances than loans that are currently in active repayment. This counterintuitive pattern has one key cause: Borrowers incur higher debts by staying in school longer.

Degree Attainment and Default as of 2009 by 2009 Federal Student Loan Balance for Borrowers Who Started College in 2003-2004



The common explanation for the inverse relationship between borrowing and default is that persisting to graduation requires more borrowing but also leads to higher incomes, such that the loan payments are actually more affordable. Data support this explanation, but it is incomplete. Provisions like deferments and income-driven repayment plans offer borrowers effective means to avoid defaulting on federal student loans regardless of income. Helping borrowers acquire the knowledge and skills to navigate the repayment process early on can be an effective default prevention strategy for all borrowers, especially those will drop out and be at greatest risk of default.

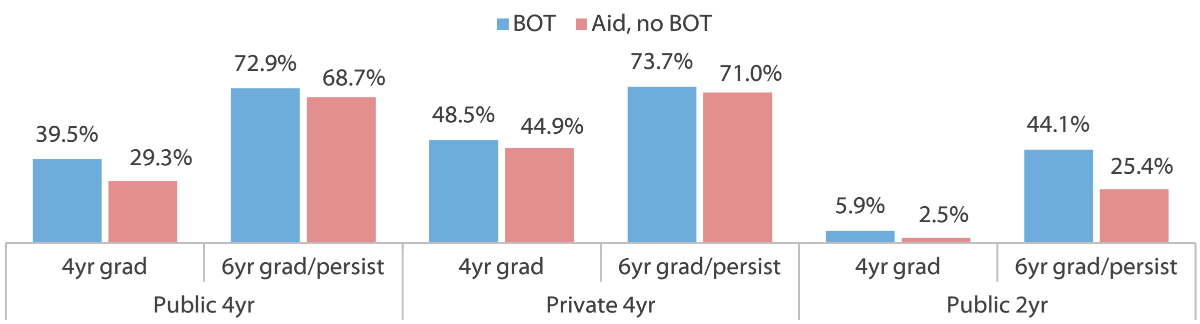
Sources: Cohort default rate: U.S. Dept of Education, "Official Cohort Default Rates for Schools", (http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html); Loan status data: U.S. Dept of Education, Federal Student Loan Portfolio, Q3 2016, (https://studentaid.ed.gov/sa/about/data-center/student/portfolio); Lifetime default projection: U.S. Office of Management and Budget, FY 2017 Budget for Dept of Education, (https://www.whitehouse.gov/sites/default/files/omb/budget/fy2017/assets/edu.pdf); Attainment and default: Author's analysis of U.S. Dept of Education, National Center for Education Statistics, 2003-04 Beginning Postsecondary Students Longitudinal Study (BPS:04/09).

B-On-Time Loan Showed Promise But Was Underutilized

The Texas B-On-Time (BOT) Loan Program is an undergraduate student loan program that sought to increase access to higher education and encourage students to graduate on time, which costs less, and focus on academics, which should promote learning and better employment outcomes.. Established in 2003, this loan was completely forgiven for borrowers who completed their degrees on time with a 3.0 GPA or higher. Loans to students at public institutions were funded by a tuition set-aside; legislative appropriations funded loans to students at private institutions. The Texas Legislature ceased the disbursement of new loans in 2013; renewal loans will be made through 2020.

Students who received BOT loans consistently graduated at higher rates than students who received aid but no BOT loan. About forty percent of public university students with BOT loans graduated in four years, compared to 29 percent for non-BOT aid recipients. According to the THECB, "these data suggest that the prospect of loan forgiveness may have been a strong enough incentive to influence behavior leading to more timely graduation".

Graduation and Persistence Rates of BOT Recipients and Non-Recipients who Received Other Aid, by Sector (program lifetime)



Despite its promise, the BOT program was underutilized. Thirty-six percent of funds were not allocated in FY 2011, and only five out of 136 institutions disbursed their entire allocation. Four-year private institutions used 90 percent of their funds, while public universities used 64 percent. Community colleges used only 3 percent of their allocation.

In 2013, the Sunset Advisory Commission identified several issues hindering the BOT program. These included both poor structural fit and inadequate funding at community colleges, strict eligibility requirements, complexity, and lack of awareness. Federal "preferred lender list" rules likely contributed to this lack of awareness. Created to prevent conflicts of interest with private student lending, the rules prevent college staff from volunteering information about non-federal loans unless the institution develops a "preferred lender list". This process entails risks to the institution and diverts scarce administrative resources. Public institutions, whose lower costs are less likely to require non-federal borrowing, are less likely to have preferred lender lists; this may partially explain their low utilization rates relative to private institutions. Acknowledging this issue, the Commission concluded that, "despite its flaws, the state benefits from a program [BOT] that supports access to college through no-interest loans and encourages graduation". The Commission made several recommendations to improve the program but the state opted to phase it out.

New legislation has been introduced to alter this decision. State Senator Judith Zaffirini (D-Laredo), who wrote the original BOT legislation, has introduced SB 32, which would recreate the program with improvements, such as directing the THECB and school districts to help inform students of its benefits. Rep. Joaquin Castro (D-San Antonio) introduced bills in the previous U.S. Congress to exempt state-sponsored, interest-free loans from preferred lender requirements and even create a national B-on-Time program; this legislation will likely be reintroduced.

Sources: Texas Higher Education Coordinating Board (THECB), *Report on student financial aid in Texas higher education for fiscal year 2015*, September 2016 (http://www.thecb.state.tx.us/reports/PDF/8504); Utilization: Sunset Advisory Commission, *Staff report with hearing material: Texas Higher Education Coordinating Board*, July 2013, pp. 48 (https://www.sunset.texas.gov/public/uploads/).

Perkins and B-On-Time: Two Loan Programs Phasing Out

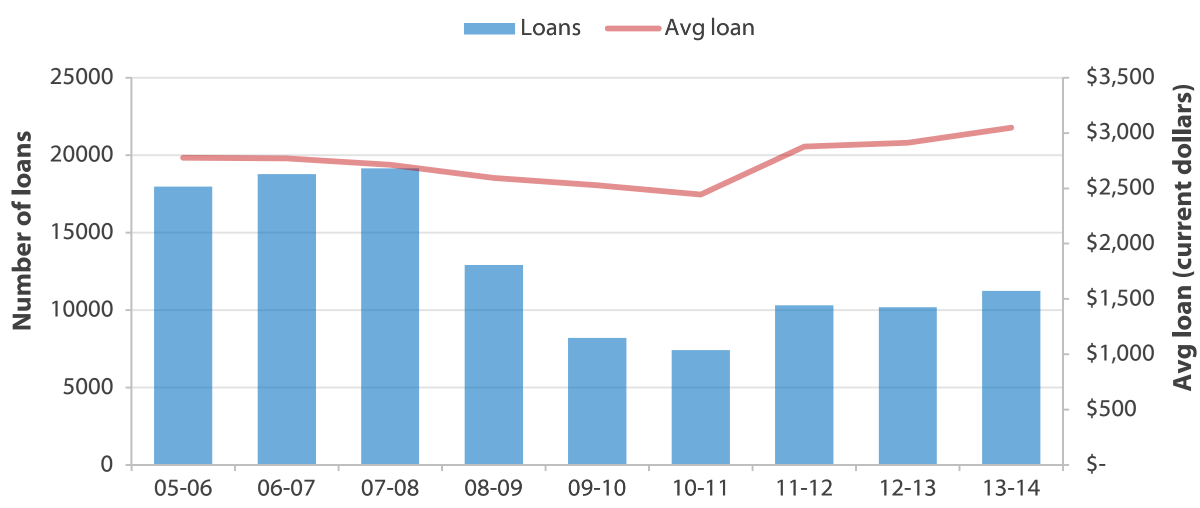
Two loan programs that Texas students have long utilized to finance higher education are currently slated to be phased out: the state B-On-Time (BOT) loan and the federal Perkins loan. Under the terms of HB 700 (84th Texas Legislature), BOT loans will be issued on a strictly renewal basis beginning with the 2015-2016 award year (AY). The BOT program offered loans to eligible undergraduates on highly advantageous terms for the student. These terms included a zero interest rate, grace period, deferment options, and 100% forgiveness upon on-time graduation with a grade point average (GPA) of 3.0 or higher. Despite these benefits and evidence that the program encouraged timely graduation, students were often unaware of the program, and it was generally underutilized (see p.79).

Established under the National Defense Act of 1958, the Perkins loan was the first national federal student aid program. It set the model for subsidized student loans and service-based loan forgiveness and offered substantial benefits, including low interest rates, an extended grace period, and generous forgiveness options.

The U.S. Senate initiated the phase-out of the Perkins loan when it failed to either renew the program or pass an extension by the September 30, 2015 deadline. Passage of the Federal Perkins Loan Program Extension Act of 2015 (H.R. 3594) has extended the program for two years but significantly limits its scope. First-time loans will be made only to undergraduate students with remaining need after exhausting eligibility for both subsidized and unsubsidized Direct Loans, which will bar most community college students from participation. No first-time loans will be issued after September 30, 2017. Even before that date, no first-time loans will be made to graduate students, but current graduate students who have borrowed Perkins loans can continue to borrow Perkins loans until finishing their programs.

The discontinuation of the Perkins loan could create a substantial financial impediment to access and success for low-income Texas students, most of whom already struggle with significant unmet need (see p.58).

Number of Perkins Loans and Average Perkins Loan for Texas Postsecondary Students, by Award Year



Sources: B-On-time Loans: Texas Higher Education Coordinating Board. Texas Be-On-Time (BOT) Loan Program Fact Sheet (http://www.hhloans.com/index.cfm?objectid=B00C090D-E45D-4F4B-89DA195959930185); HB 700: Texas Legislature Online (http://www.capitol.state.tx.us/BillLookup/History.aspx?LegSess=84R&Bill=HB700); Perkins Loan background: Berkes, J. & Sponholtz, M. (2015). What We Do (And Don't) Know About Perkins Loan Program Wind-Down. National Assoc of Financial Aid Administrators (http://www.nasfaa.org/news-item/6493/What_we_Do_and_Don_t_Know_About_Perkins_Loan_Program_Wind-down#fund); Perkins loan extension: Berkes, J. (2015). Two-Year Extension of the Perkins Loan Program. NASFAA (http://www.nasfaa.org/news-item/7007/Two-Year_Extension_of_the_Perkins_Loan_Program_Would_Bring_Dramatic_Changes). Texas Perkins data: Texas Higher Education Coordinating Board. Report on Student Financial Aid in Texas Higher Education for Fiscal Year 2006-2014 (http://www.thecb.state.tx.us/Reports/).

Tuition Set-Asides Require Colleges to Use Revenue for Aid

One way the state of Texas tries to make college affordable for all students is through tuition set-aside laws, which require that public institutions use a portion of their tuition revenue to provide financial aid. The Texas Legislature mandated set-asides in 1975 to fund the Texas Public Education Grant (TPEG) and expanded them in 2003 with HB 3015. The law allowed public institutions to set their own "designated tuition" but required that they set aside portions of any increase over $46 per semester credit hour (SCH). The Texas Higher Education Coordinating Board (THECB) estimates that eliminating set-asides could reduce average public tuition by about seven percent. THECB also reports that tuition set-asides funded about $345 million in financial aid for 208,944 students with in FY 2015.

Public University (Four-year) and Community College (Two-year) Tuition

Statutory Tuition
Four-year: set by Legislature; currently, $50 per SCH for Texas residents
Two-year: set by governing board within statutory parameters

TPEG Set-Aside

	Texas Resident	Non-resident
Four-year	15%	3%
Two-year	6%	$1.50

Designated Tuition
Created by HB 3015 (2003); set at whatever level the institution's governing board considers necessary

HB 3015 Set-Aside
Texas Residents: 15% of designated tuition in excess of $46 per SCH*

B-on-Time Set-Aside
Texas Residents: 5% of designated tuition in excess of $46 per SCH*

Texas Public Education Grant (TPEG; TEC Sec 56.031-56.039, est. 1975)

- Each institution collects from and disburses to its own students.
- In FY 2015, $146,770,037 was disbursed to 120,496 students. These students had exceptional financial need: about half were below the poverty line ($23,624), and over 80 percent were below median income ($52,550).

Financial Aid Funded by Designated Tuition Set-Asides (HB 3015; TEC Sec 56.011-56.012, est. 2003)

- Each institution collects from and disburses to its own Texas resident students and is legally required to notify resident students of the set-aside every semester/term.
- Aid may include loans and work-study, but 99 percent of funds were used for grants/scholarships in FY 2015.
- In FY 2015, $196,804,001was disbursed to 87,332 students. These students had exceptional financial need: 43 percent were below the poverty line, and 73 percent were below the median income.

B-on-Time Loan (TEC Sec 56.0092, est. 2003, rescinded 2013)

- Made zero-interest loans to resident undergraduate students; see page 79 for additional details.
- In FY 2015, $58,990,699 was disbursed to 9,484 students. These were mostly middle-income students: 67.6 percent of recipients were above median income in FY 2015.

* Both two- and four-year institutions are subject to this set-aside, but no community college currently charges designated tuition greater than $46 per SCH.

Sources: THECB, *Report on student financial aid in Texas higher education for fiscal year 2015*, September 2016 (http://www.thecb.state.tx.us/reports/PDF/8504)