

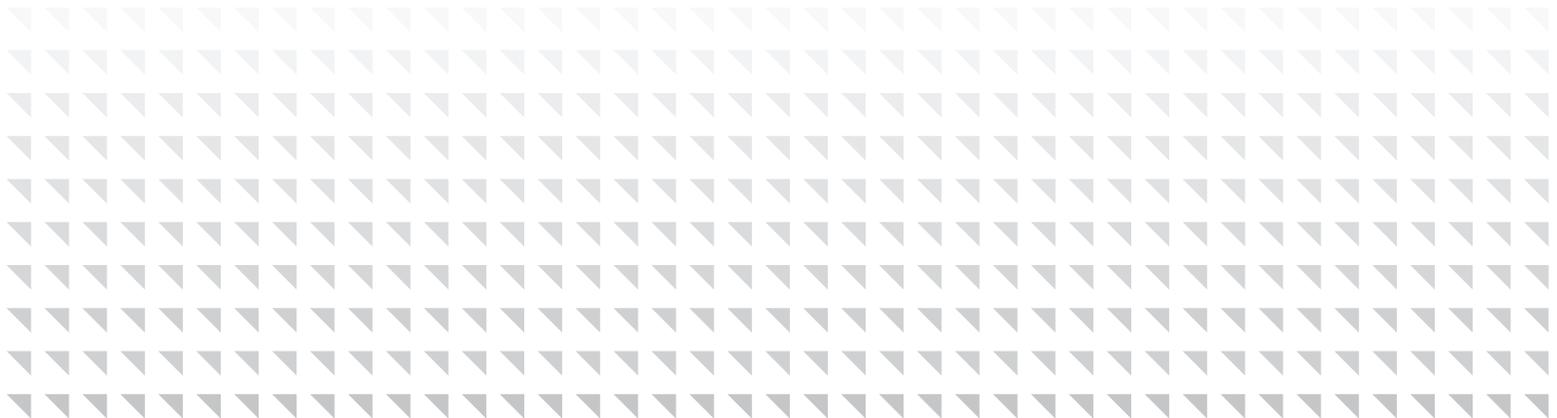


**A REPORT TO THE 82ND REGULAR
SESSION OF THE TEXAS LEGISLATURE**

Digging Deeper: An Analysis of Student Loan Debt in Texas

November 2010

Prepared by TG Research and Analytical Services



About TG

TG promotes educational access and success so that students can realize their college and career dreams. As a public, nonprofit corporation, TG offers resources to help students and families plan and prepare for college, learn the basics of money management, and repay their federal student loans.

TG Research Reports

This report, *Digging Deeper: An Analysis of Student Loan Debt in Texas*, is a publication of TG's Research and Analytical Services department. It is designed to provide Texas legislators and other readers with information and insight about the demand for student aid in Texas. Other recent TG research publications, which are available on either TG's publications website www.tgslc.org/publications or TG's research website www.tgslc.org/research, include:

- *How to Graduate High-Risk Students: Lessons from Successful For-Profit Colleges and Schools in Texas*, June 2010;
- *State of Student Aid and Higher Education in Texas (SOSA)*, February 2010;
- *The Toughest Test: The Student Loan Liquidity Crisis of 2007-08 in Texas*, November 2008;
- *Ready, Willing, and Unable: How Financial Barriers Obstruct Bachelor-degree Attainment in Texas*, December 2006;
- *Legislative Fact Sheets*, 2010;
- *School Fact Sheets*, 2010;
- *Risk Factors for Dropping Out: Comparing the Southwest to the Nation*, 2006;
- *Risk Factors for Dropping Out: Comparing Texas to the Nation*, 2006;
- *Risk Factors for Dropping Out: Examining State and Regional Difficulties*, 2006;
- *Opening the Doors to Higher Education: Perspectives on the Higher Education Act 40 Years Later*, November 2005;
- *The Role of Work and Loans in Paying for an Undergraduate Education: Observations from the 2003-2004 National Postsecondary Student Aid Study (NPSAS)*, November 2005

Comments and requests for additional information regarding this report or any of TG's other research publications are welcomed. Please direct questions to:

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November 2010

Prepared by TG Research and Analytical Services

By Melissa Shook
Jeff Webster
Carla Fletcher



November 2010

TO: Members and Staff, 82nd Regular Session of the Texas Legislature
FROM: Sue McMillin, President and CEO, TG
RE: Digging Deeper: An Analysis of Student Loan Debt in Texas

The Texas Guaranteed Student Loan Corporation (TG) is pleased to submit to the 82nd Regular Session of the Texas Legislature its third biannual DEMAND FOR STUDENT FINANCIAL AID report, in compliance with Section 57.21 (d) of the Texas Education Code, as amended by House Bill 2274, 79th Legislature, Chapter 221, Section 9.

TG was established by the 66th Texas Legislature in 1979 as a public, nonprofit corporation with oversight by the state executive and legislative branches of government to administer the Federal Family Education Loan Program (FFELP), historically the largest source of student financial aid in Texas, for the State of Texas on behalf of the U.S. Department of Education.

TG and the legislature have a common goal expressed in the CLOSING THE GAPS initiative — to enroll 630,000 more Texas students in higher education by 2015 — which must be achieved to ensure the future economic and social well-being of Texas. TG believes that providing the best information possible to the legislature helps accomplish this goal.

For this third mandated report to the legislature, we have chosen to take a closer look at student loan debt in Texas. The report shows how aversion to borrowing seems to push some students into enrolling in higher education part time and working full time while enrolled. Unfortunately, these well-intentioned strategies to minimize or avoid borrowing tend to diminish the educational experience for such students and are associated with lower graduation rates. Making student loans safer and easier to understand may allow for more responsible borrowing that enables students to achieve a higher quality of engagement with the academic life of the campus.

TG looks forward to discussing the findings and recommendations included in this report with Members and staff during the 82nd Regular Session of the Texas Legislature.

Sincerely,

A handwritten signature in black ink that reads "Sue McMillin". The signature is written in a cursive, flowing style.

Sue McMillin
President and CEO
TG

Acknowledgements

We would like to acknowledge George Torres, Sue McMillin, Kelly Kaelin, Sandra Barone, and Matt Steiner for their thoughtful comments on earlier drafts of this report.

The authors, of course, take full responsibility for any errors contained in this publication.

Table of Contents

EXECUTIVE SUMMARY	3
Key Findings	3
FINANCIAL BARRIERS PREVENT BACHELOR’S DEGREE ATTAINMENT	5
HOW ONE EXPERIENCES COLLEGE AFFECTS HIS OR HER PROSPECTS FOR GRADUATING	6
FEAR OF DEFAULT FORCES DECISIONS THAT HINDER DEGREE ATTAINMENT	7
LOW BORROWER RATES IN TEXAS TIED TO HIGH ENROLLMENT IN COMMUNITY COLLEGES, LOW ENROLLMENT IN PRIVATE COLLEGES	11
WORKING LONG HOURS WHILE IN SCHOOL LOWERS CHANCE OF GRADUATING	13
ATTENDING SCHOOL PART TIME LOWERS CHANCE OF GRADUATING	14
PRIVATE FOUR-YEAR SCHOOL STUDENTS ARE MORE FULLY ENGAGED IN COLLEGE LIFE	15
MEDIAN BORROWER INDEBTEDNESS GROWS WITH NUMBER OF YEARS IN COLLEGE	17
COHORT DEFAULT RATE	19
CONCLUSION	21
ENDNOTES	23
BIBLIOGRAPHY	27

EXECUTIVE SUMMARY

In 2006, TG estimated that 47,000 bachelor's degrees would be lost in Texas due to financial barriers experienced by college-qualified high school graduates from the class of 2004. With more current data, TG now estimates that the number will be 52,800. *Digging Deeper* explores how students who enroll in college continue to experience barriers to degree attainment. The paper focuses on how debt, and the fear of borrowing, influence student decisions that, in turn, alter students' odds of graduating. Financial obstacles prompt many students in Texas to employ strategies such as delaying enrollment, attending school part time, and working long hours off campus. While lowering out-of-pocket expenses, these strategies erode the quality of student life, imposing distractions that impede academic progress and degree attainment.

Key Findings

- Due to high community college enrollment in Texas, borrower rates — the percentage of students who borrow federal loans — in the state are lower than those found nationally: 33 percent vs. 39 percent.
- Borrower rates tend to be higher at four-year colleges, where loans may facilitate full-time enrollment and reduce the need to work full time while in school. On average, four-year schools have higher graduation/transfer rates than schools with shorter-term programs, especially those programs where part-time enrollment is prevalent.
- Student loans are likely to remain a prominent instrument for paying for college in Texas. Because Texas students tend to be less likely to borrow and have fewer grant options, the policy challenge will be in finding ways to make borrowing safer and easier to understand. Borrowing can become safer through a more engaged college experience and with greater awareness of deferments and lenient repayment options. Borrowing can become easier to understand through professional delinquency and default aversion counseling that advocates for borrowers and with informative resources that clarify rights, obligations, and processes.
- The risk associated with borrowing (e.g., default, harmful credit rating, potential wage garnishment) can be mitigated by (1) providing students in school with sound loan counseling which emphasizes the importance of attending full time; (2) improving student financial literacy (including modules on frugal living, career counseling, and sound financial management); and (3) keeping student borrowers aware of their repayment options and responsibilities after they leave school.

FINANCIAL BARRIERS PREVENT BACHELOR'S DEGREE ATTAINMENT

In some ways, times have been good for low- and moderate-income college students in Texas. The two primary sources of need-based grant aid — the Federal Pell Grant Program and the Towards EXcellence, Access, and Success (TEXAS) Grant Program — have seen significant increases over the past five years. Pell Grant funding has increased 36 percent since the 2003-04 academic year (AY), while TEXAS Grant awards have risen 43 percent.¹ These increases have been hard won, coming at a time of economic recession which has strained both federal and state budgets, while also driving up demand for competing government services.

As beneficial as these increases in need-based grants have been, financial barriers to higher education persist. By some measurements, even more students in Texas appear to face challenging financial obstacles to college. Recent enrollment shifts impelled TG to raise its one-year estimate of the number of bachelor's degrees lost due to financial barriers from 47,000 to 52,800* for the 2004 cohort of college-qualified high school graduates.^{2,3} This loss is roughly equivalent in number to all bachelor's degrees awarded in 2009 by the University of Texas System, the Texas A&M University System, and the University of Houston System combined.⁴

Financial barriers experienced by college-qualified high school graduates jeopardize access to college despite increases in Pell Grant funding and TEXAS Grant awards.

The same economic trends that have reduced revenue to the federal and state governments have also expanded the pool of students with financial need. A survey of financial aid officers conducted by the National Association of Student Financial Aid Administrators (NASFAA) showed that 61 percent of schools nationwide saw at least a 10-percent increase in financial aid applications in AY 2009-10.⁵ The number of Free Application for Federal Student Aid (FAFSA) submissions for students attending Texas colleges increased 36 percent from 1,065,634 in AY 2006 to 1,449,447 in AY 2009.⁶ More families are searching for ways to pay ever-increasing college costs.⁷

Average total tuition and fees for students attending Texas four-year public universities increased from \$4,680 in AY 2004 to \$5,940 in AY 2008 — a 27 percent increase. Texas community college students have also experienced an increase in tuition and fees. A full-time community college student in Texas paid an average of \$1,400 in AY 2004. That same student would have paid seven percent more five years later, or \$1,500.⁸ With federal and state policymakers struggling to keep need-based grant funding on pace with growing college expenses and an expanded pool of students with financial need, options for low- and moderate-income students to remain in school are limited.

This report attempts to describe — through borrowing trends, enrollment patterns, and off-campus work statistics — how Texas families respond to difficult choices in how to pay for college. Unfortunately, these decisions often have negative consequences on graduation rates.

* This number is based on the bachelor's degree attainment rate of college prepared students from high-income families compared to low-, moderate-, and middle-income families. Students who took at least Algebra 2 by high school graduation were considered to be college-qualified in this analysis.

These decisions will continue to stymie the accomplishment of college success goals unless a higher percentage of low- and moderate-income students find ways to attend school more fully (through social integration, meaningful work, and academically intense full-time enrollment).

HOW ONE EXPERIENCES COLLEGE AFFECTS HIS OR HER PROSPECTS FOR GRADUATING

Many Texas students appear to make choices that reduce their immediate costs or minimize their reliance on student loans but, simultaneously, decrease their chances of earning a degree.

Figure 1: Probability of Graduation and Character of Student Life Continuum

GRADUATION RATES	Affordability		Work	Enrollment
	HIGH	Free tuition and living expenses	Quality College Work-Study	Full time
	↑	Substantial need-based grants	College Work-Study	Full time
		Mostly loans	Part-time off-campus	Part time
	↓	Need, but no grants or loans	Full-time off-campus	Part time
LOW				

Figure 1 illustrates this conundrum by laying out hypothetical scenarios in three major elements of college life – affordability, work, and enrollment intensity. These scenarios are ordered on a continuum from high to low probability for promoting graduation. Students most likely to graduate would (1) have no financial concerns; (2) work a limited number of hours and in a way that would directly contribute to the learning process; and (3) enroll full time, thus allowing many opportunities for formal and informal interaction with faculty and peers.⁹ While quite rare, this scenario helps one visualize the character of student life most conducive to academic success. Student life that promotes a sense of community within the campus nurtures young scholars and bolsters their dedication to academic success. A study conducted by Dr. Laurie A. Schreiner concluded that, “Retention among first-year students is more likely to occur when students feel a sense of community — a feeling that they belong on campus and are welcome.”¹⁰ Students absorbed in the life of the campus through study, work, and informal interaction with faculty and classmates are most likely to succeed.

On the other end of the college life continuum, a much different scenario illustrates the challenges and trade-offs that make graduating far more difficult. In this scenario, students (1) have financial need, yet do not have access to grants or loans; (2) work more than 35 hours per week away from campus; and (3) enroll part time to accommodate a busy work schedule, thus extending the time and overall cost of completing a program of study.¹¹ Students who succeed in this scenario must demonstrate an admirable but extraordinary amount of fortitude to persist through such distractions and impediments to graduation.

Most students will find themselves between these two extreme scenarios. Nonetheless, when examining programs of student assistance, it is helpful to consider the degree to which these policies nudge students either up or down this continuum. While Texas has many students for whom college is affordable, sizeable numbers appear to have financial hardship. The strategies employed by these low- and moderate-income students to pay for college often decrease their likelihood of graduating.¹² **The below-average rates of degree completion in Texas can be understood, in part, as a by-product of the tough decisions students make on the low end of the character of student life continuum.** As we will see, the prospect of borrowing plays an influential role in the decisions these students make.

FEAR OF DEFAULT FORCES DECISIONS THAT HINDER DEGREE ATTAINMENT

Loans are an imperfect tool with which to promote college access and success. Because loans come with potential consequences for nonpayment, students who are unsure of their ability either to pay for college or to succeed academically while in college may be averse to borrowing. While grants are, in essence, free of obligation, student loans must be repaid — and with interest. Federal student loans offer many benefits over private loans, such as:

- Interest payments are subsidized (for certain loans),
- Repayment typically begins only after leaving school,
- Flexible repayment options like Income-Based Repayment and income-contingent repayment are available,
- Deferments and forbearances are easy to secure, and
- Loans aren't considered in default until after 270 days of delinquency.

Nonetheless, student loans have consequences of default, which include wage garnishment and federal income tax refund seizure; and are not subject to some bankruptcy protections.¹³ Today's financial climate has brought the issue into sharp focus with the latest cohort of new graduates struggling to find work amidst high unemployment rates, yet with large student loan bills to pay. Increasingly, families are questioning the value of a higher education when weighed against high debt burdens. Although college graduates still make more money on average than high school graduates, that extra income must be weighed against the debt burden and the risk that entails.¹⁴ After all, many borrowers will earn less than the average income and many fail to graduate. Because borrowing has risks, loans have less power to remove financial barriers to higher education than do grants.

Texas has developed an innovative way of addressing this issue. Enacted in June of 2003, the Texas B-On-Time Loan Program (BOT) offers students the opportunity to take out a student loan that will be forgiven upon graduation if specific criteria are met. The criteria required to

have this loan forgiven are (1) to graduate from a higher education program with at least a B average and (2) to graduate within the optimal timeframe for the program in which the student is enrolled. This program encourages the student who receives a BOT loan to graduate on time, which further reduces the student's overall cost. Successful BOT borrowers have their loans forgiven at the same time they stop paying for school and start building their career. Those borrowers who aren't able to graduate on time with at least a B average must repay the loan, but with no interest and within an extended repayment period of a maximum of 15 years; these are possibly the best student loan terms available, though the borrower still incurs a risk.¹⁵

Students from underrepresented backgrounds may have a keener appreciation for the detriments associated with loans and may be averse to borrowing. Student borrowers must take a calculated risk based on the probability of being successful in their school and career. Students from low- and moderate-income families graduating from high school today are doing that calculation and are often choosing to employ strategies that will lessen their debt burden or entirely eliminate the need to borrow. **This aversion appears to lead to delaying enrollment, attending part time, and working full time — all risk factors for dropping out of school.**¹⁶ Some may even postpone college indefinitely.

Latino students' aversion to borrowing was identified in a 2008 report released from the Institution for Higher Education Policy (IHEP) which stated, "Data show that Latino students are less likely to borrow even taking into account factors such as institutional type."¹⁷ Focus groups of Latino students demonstrated that these students understood that they were taking a chance when taking out student loans. They understood that they would have to pay these loans back even if they did not finish college. They believed in the "pay as you go" approach and assumed they would be able to succeed in college no matter where they went to school or how much time they spent there. Additionally, many of these students did not factor in potential financial aid when considering the price of admission. Because of this inflated estimate of cost, Latino students often sought out lower-cost options. In Texas, 62 percent of Latino students attend college part time and 39 percent live at home where they do not enjoy the benefits of campus life.¹⁸

By precluding a student from having a more engaged college experience, fear of student debt may inadvertently lower a student's chances for achieving college success.

Table 1: Federal, State, and Private Student Loan Programs Available in Texas

Program	Eligibility	Loan Limits	Payment
Federal Subsidized Stafford Loan	U.S. citizen or eligible noncitizen, enrolled at least half time in an eligible program. Student must demonstrate financial need.	Between \$3,500 and \$5,500 per year depending on grade level. \$23,000 total.	While the student is enrolled at least half time, interest is paid by the federal government, and no payments are required. Payments start after a 6-month grace period. Fixed interest rate for undergraduate students: on or after 7/1/2010, and before 7/1/2011 = 4.5%; on or after 7/1/2011, and before 7/1/2012 = 3.4%; on or after 7/1/2012 = 6.8%. Fixed interest rate for graduate and professional students = 6.8%.
Federal Unsubsidized Stafford Loan	U.S. citizen or eligible noncitizen, enrolled at least half time in an eligible program. Student is not required to demonstrate financial need.	Between \$5,500 and \$7,500 per year for a dependent student depending on grade level. Aggregate limit for a dependent student is \$31,000. Between \$9,500 and \$12,500 per year depending on grade level for an independent student or a dependent student whose parents are unable to obtain a Federal PLUS loan. Aggregate limit for an independent student or a dependent student whose parents are unable to obtain a Federal PLUS loan is \$57,500. Annual and aggregate amounts listed above are inclusive of amounts a student can borrow under the Federal Subsidized Stafford Loan Program. For example, a first-year student can borrow a total of \$5,500 in Stafford loan funds, no more than \$3,500 of which can be subsidized.	While the student is enrolled at least half time, no payments are required but the student must pay the interest or the unpaid interest will be capitalized. Payments start after a 6-month grace period. Fixed interest rate = 6.8%.
Federal PLUS Loan for Graduate and Professional Students	U.S. citizen or eligible noncitizen, enrolled at least half time in an eligible program. Borrower must not have adverse credit; may apply with endorser if applicable.	Students may borrow up to the cost of attendance minus any other financial aid. There is no aggregate limit.	While the student is enrolled at least half time, no payments are required but the student must pay the interest, or the unpaid interest will be capitalized. Payments start after a 6-month deferment period. Fixed interest rate = 7.9%.

Table 1: Federal, State, and Private Student Loan Programs Available in Texas

Program	Eligibility	Loan Limits	Payment
Federal Perkins Loan ³	U.S. citizen or eligible noncitizen. Undergraduate or graduate student with exceptional financial need.	Up to \$5,500 per year for an undergraduate student. Aggregate limit for an undergraduate student is \$27,500. Up to \$8,000 per year for a graduate or professional student. Aggregate limit for a graduate or professional student is \$60,000 (this includes amounts borrowed as an undergraduate student).	This loan has a 10-year repayment period. The interest is paid by the federal government during the in-school and 9-month grace periods. Fixed interest rate = 5%.
College Access Loan (CAL)	Texas resident, enrolled at least half time in an eligible program.	Student may borrow up to the cost of attendance minus any other financial aid. There is no aggregate limit.	Loans are given a 10- or 20-year repayment period depending on the total balance. Payments start after a 6-month grace period. Fixed interest rate = 6% for AY 2010-11. Origination fees ranging from 3% to 5% depending upon credit standing of the borrower and cosigner.
Texas B-On-Time Loan ¹	Texas resident, enrolled full time in an eligible program. ²	4-year institutions: \$6,780/year, 2-year institutions: \$1,780/year.	If not forgiven: loan repayment period of 15 years or less. The minimum annual repayment amount is \$900. Interest rate: 0%.
Private Education Loan	Eligibility depends on the student's credit score or that of his or her cosigner.	Students may borrow up to the cost of attendance minus any other financial aid.	The repayment term for private education loans generally range from 12 to 25 years. Most interest rates are variable and are indexed to PRIME or LIBOR, plus a margin. Origination, disbursement, and repayment fees may apply depending upon the program.

¹ A BOT loan shall be forgiven if the student receives an undergraduate degree or certificate from an eligible institution and the student either: Graduated with a cumulative GPA of at least a 3.0 on a 4.0 scale, within: four or five calendar years after enrollment depending on field of study or two calendar years after enrollment in a public or private two-year institution.

² Student must maintain academic progress to retain eligibility.

³ The school acts as lender with a limited amount of funds provided by the federal government.

Sources:

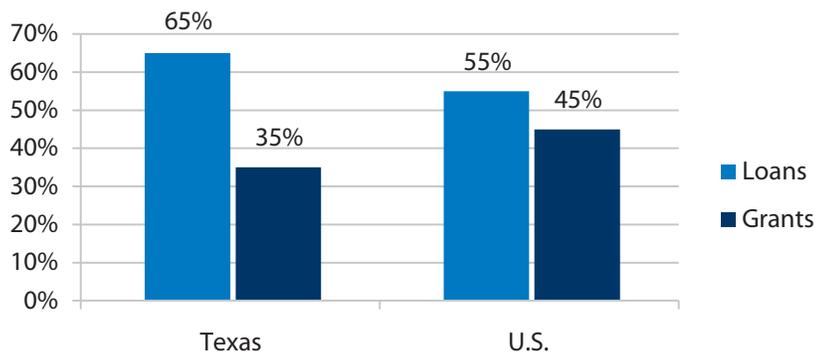
<http://federalstudentaid.ed.gov/>

<http://www.theccb.state.tx.us/index.cfm?objectid=7D014C29-BE66-0063-3E7B104B8BC5DF3E>

LOW BORROWER RATES IN TEXAS TIED TO HIGH ENROLLMENT IN COMMUNITY COLLEGES, LOW ENROLLMENT IN PRIVATE COLLEGES

Nationally, there is a roughly even balance between loans and grants, with 55 percent of student aid dollars coming in the form of loans and 45 percent via grants. In Texas, the distribution is weighted more heavily toward student loans — 65 percent of student aid dollars are provided through loans and only 35 percent through grants.¹⁹ However, in looking at borrower rates — the percent of students who borrow federal student loans — a different pattern emerges.[†] According to the National Postsecondary Student Aid Survey (NPSAS) of 2008, while 39 percent of U.S. undergraduates take out loans, only 33 percent of Texas undergraduates borrow.[‡]²⁰ This somewhat paradoxical finding can be better understood by examining where and how Texas students go to school.

Figure 2: Aid by Source for Texas and the U.S., Award Year 2007-2008



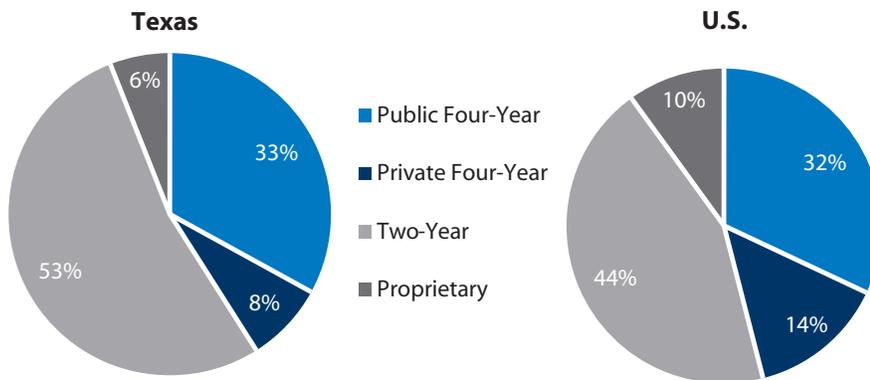
Source: *State of Student Aid and Higher Education in Texas, 2010*

Enrollment patterns in Texas are significantly different than U.S. enrollment patterns, with Texas students gravitating to lower-cost options and away from more expensive schools. Texas students are more likely to attend community colleges than any other school sector. More than half (53 percent) of students in Texas attend a community college, while only 44 percent of U.S. students attend do. Texas also has a much smaller percentage of students attending private four-year universities (8 percent) compared to students nationally (14 percent).²¹ Differences in borrower rates between community colleges and four-year private colleges tend to be pronounced, as are the educational experiences of students.

[†] Note: Percent of aid awarded figures include both undergraduate and graduate students. Borrower rates only include undergraduates.

[‡] The statistics used in this paper refer to undergraduate students only, unless otherwise noted.

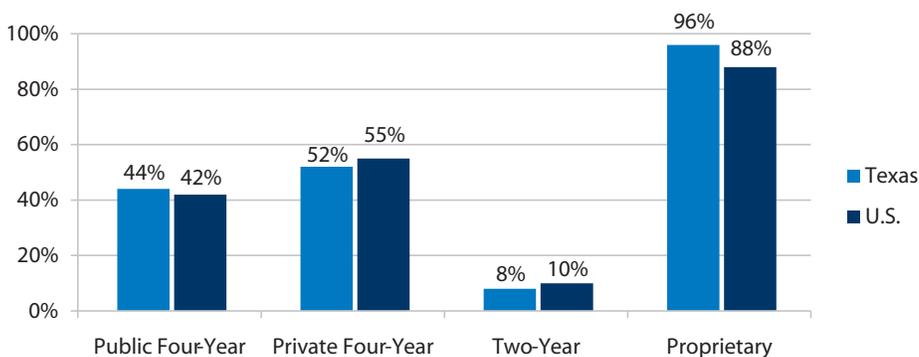
Figure 3: Undergraduate Enrollment by Sector, Texas and U.S.



Source: U.S. Department of Education, NPSAS (2008)

Borrower rates vary widely by school sector. With relatively high tuition and virtually no institutional grants for proprietary school students, nearly all such students borrow. Roughly half of four-year school students take out loans, while those attending private colleges are a little more likely to borrow than those going to public universities. While private colleges tend to charge much higher tuition than do public universities, they often award large sums of institutional grants to students. This has the net effect of reducing the gap in the cost of education between these two school sectors, thus accounting for the relatively small difference in borrower rates. Unsurprisingly, borrower rates at community colleges are low. Only eight percent of Texas students attending a two-year institution receive student loans.²² Community college students may borrow less frequently because costs are low, their propensity for part-time enrollment tends to reduce their eligibility for federal loans, and they are more likely to work full time. Differences by school sector between Texas and U.S. students are small, with the exception of proprietary schools, at which Texas students are much more likely to borrow. However, overall gaps in borrower rates between Texas and the U.S. are due primarily to the proportion of students enrolled in the various school sectors.

Figure 4: Undergraduate Borrower Rates by School Sector



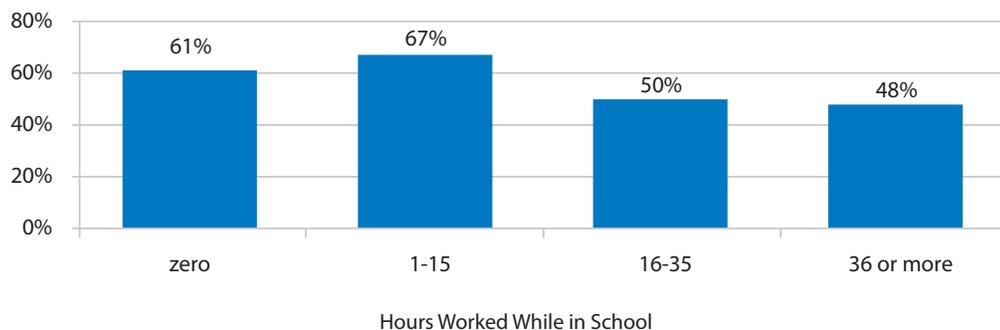
Source: U.S. Department of Education, NPSAS (2008)

WORKING LONG HOURS WHILE IN SCHOOL LOWERS CHANCE OF GRADUATING

Many students who seek to minimize or avoid borrowing resort to working long hours to pay for college. Full-time workers seldom work on campus and often miss out on formal and informal interactions with faculty and peers. Consequently, **students who work 36 hours or more per week have the lowest graduation rates (48 percent)**. Texas has a higher percentage of students (26 percent) who work 36 hours or more per week than the U.S (23 percent).²³ Students who work the most hours are the least likely to borrow. Texas students who work while attending school are more likely than comparable U.S. students to self-identify as “a student who works” than as “a worker attending classes.” This, along with a greater propensity to choose inexpensive higher education options over higher cost alternatives, suggests that Texas students see themselves as students, but ones who are likely looking for ways to lower their exposure to loans.

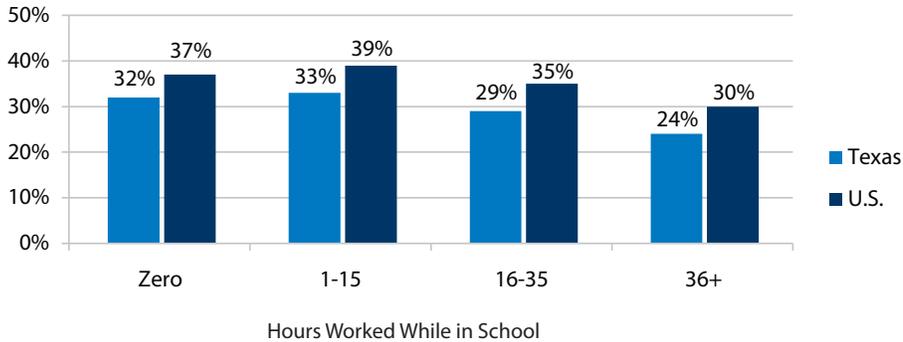
Working a modest number of hours is most conducive to graduation. Sixty-seven percent of students who worked between one and 15 hours per week while in school, graduated.²⁴ Their graduation rates are even higher than those who didn’t work at all while in college.²⁵ Students who work a few hours per week show initiative and often work on campus where they strengthen their tie to the college, but are not so overburdened with work to the point where it becomes a distraction from studies. Only 17 percent of Texas students work between one and 15 hours per week compared to 20 percent of U.S. students. These students are the most likely to borrow, at 33 percent in Texas and 39 percent in the U.S.²⁶ **Borrowing may make it easier for students to graduate because it reduces the need to work full time, thus facilitating full-time enrollment.**

Figure 5: Undergraduate Graduation Rates, U.S.



Source: U.S. Department of Education, NELS (88/2000)

Figure 6: Undergraduate Borrower Rates, U.S. and Texas

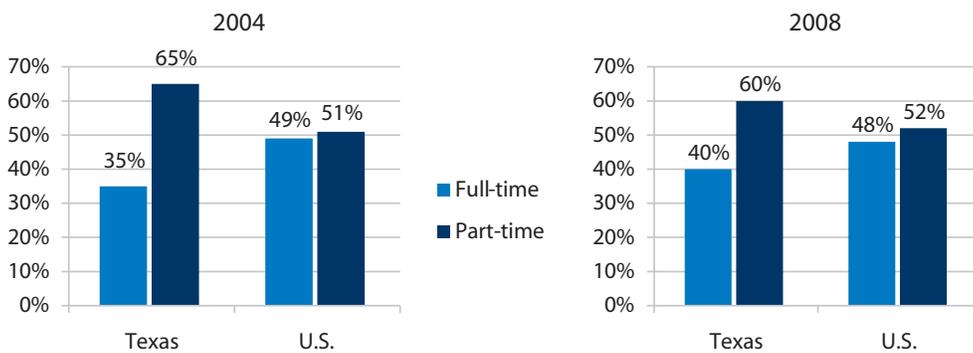


Source: U.S. Department of Education, NPSAS (2008)

ATTENDING SCHOOL PART TIME LOWERS CHANCE OF GRADUATING

Another well-intended, cost conscious approach to financing college is to attend part time. But while reducing immediate costs, the longer time to degree makes college more expensive in the long run. Part-time enrollment is also a less sure route to degree attainment, as it reduces the student’s connection to the life of the college and increases the likelihood that life interruptions may detour the student. Texas students choose to attend part time at a higher rate than students nationally. **In 2008, 60 percent of Texas students attended part time, compared to 52 percent of U.S. students.** However, while the percentage of U.S. attending part time has been steady since 2004, Texas students are trending toward full-time enrollment, making good progress in closing the gap in academic success in the state.

Figure 7: Undergraduate Enrollment Intensity, Texas and U.S.

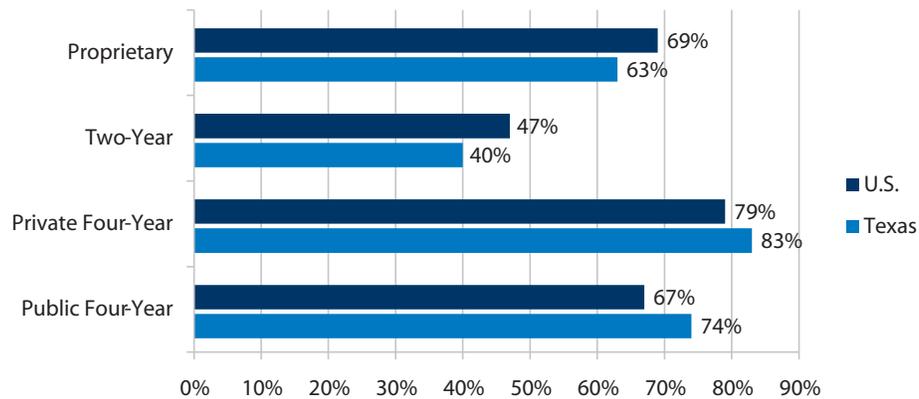


Source: U.S. Department of Education, NPSAS (2004) and NPSAS (2008)

PRIVATE FOUR-YEAR SCHOOL STUDENTS ARE MORE FULLY ENGAGED IN COLLEGE LIFE

Students who work long hours while in school and those who attend part time are at greater risk of dropping out of college. Students making these choices are more common at lower-cost institutions where their disengagement in campus life contributes to lower graduation and transfer rates. The most commonly chosen school sector in Texas — community colleges — has the lowest graduation/transfer rate at 40 percent, which is 7 percentage points below the national rate.⁵ The sector in which Texas students are relatively underrepresented, private four-year colleges, has the highest graduation/transfer rate (79 percent). Students attending school in this sector are the least likely to work long hours while in school and attend part time. Generous institutional grant aid and high borrower rates help private college students participate more fully in college life.

Figure 8: Undergraduate Graduation/Transfer Rates by Sector



Source: U.S. Department of Education, IPEDS

⁵ Graduation and transfer rates are measured by the U.S. Department of Education using data from the Integrated Postsecondary Education Data System (IPEDS) survey. This data source looks only at first-time, full-time students – a small subset of students attending community college. Efforts are underway to develop more appropriate national performance standards for community colleges. Jacob Fraire, TG Assistant Vice President, Student and Institutional Success, is a member of a federal advisory committee examining this issue.

Table 2: Primary Student Aid Programs in Texas, Academic Year 2008-09

Student Aid Program	Total Students Awarded	Total Amount Awarded	Average Amount Awarded
Federal Loan Programs			
Unsubsidized Stafford Loan	366,076	\$2,027,161,215	\$5,538
Subsidized Stafford Loan	409,710	\$1,736,020,059	\$4,237
Parent PLUS Loan	31,863	\$329,619,721	\$10,345
Grad PLUS Loan	7,085	\$97,848,211	\$13,811
Perkins Loan	13,544	\$34,675,974	\$2,560
Federal Grant Programs			
Pell Grant	446,568	\$1,294,908,974	\$2,900
Supplemental Education Opportunity Grant (SEOG)	84,161	\$58,326,901	\$693
Academic Competitiveness Grant	39843	\$28,068,785	\$704
National SMART Grant	3278	\$9,952,188	\$3,036
TEACH Grant	641	\$2,160,656	\$3,371
State Loan Programs			
College Access Loan	7,343	\$66,846,596	\$9,103
Hinson-Hazelwood College Student Loan	553	\$4,933,125	\$8,921
Texas B-on-Time Loan	6,576	\$31,198,071	\$4,744
State Grant Programs			
Texas Grant	54,180	\$199,490,028	\$3,682
Texas Educational Opportunity Grant	4,398	\$6,992,213	\$1,590
Texas Public Educational Grant	103,073	\$126,947,700	\$1,232
Tuition Equalization Grant	30,668	\$101,234,770	\$3,301
Work-Study Programs			
Federal Work-Study	30,776	\$52,916,720	\$1,719
Texas College Work-Study	5,189	\$6,200,000	\$1,195

Source:

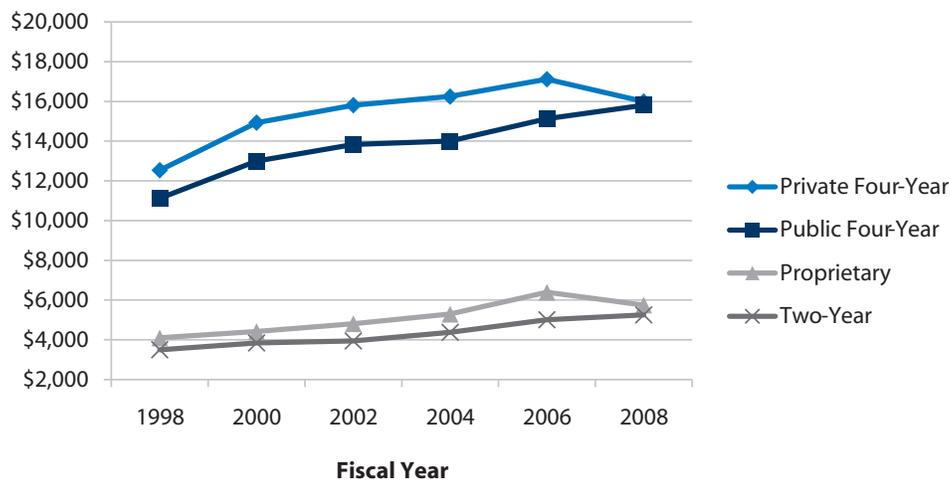
<http://www.tgslc.org/factsheets/schools/index.cfm>

<http://federalstudentaid.ed.gov/datacenter/programmatic.html>

MEDIAN BORROWER INDEBTEDNESS GROWS WITH NUMBER OF YEARS IN COLLEGE

As one would expect, Median Borrower Indebtedness (MBI) is higher at four-year schools than at schools with shorter-term programs. As students progress to higher grade levels, not only can they continue to borrow, they can borrow higher amounts. Schools that retain students well typically have higher MBIs. Figure 10 shows the MBI trends by school sector for Texas borrowers leaving school between fiscal years 1998 and 2008.** The ten-year trend for four-year school students has been a gradual increase with private college borrowers, until recently, shouldering a higher MBI than public university borrowers. Both private and public four-year school borrowers had an MBI of about \$16,000 in FY 2008. Borrowers attending short-term programs at community colleges and proprietary schools have much lower MBIs, but have also seen a modest increase over the same period. These MBI figures only reflect borrowing from the primary source of student loans in Texas, the Federal Family Education Loan Program (FFELP). Texas students have had access to other student loans as well.

Figure 10: MBI by School Sector in Texas



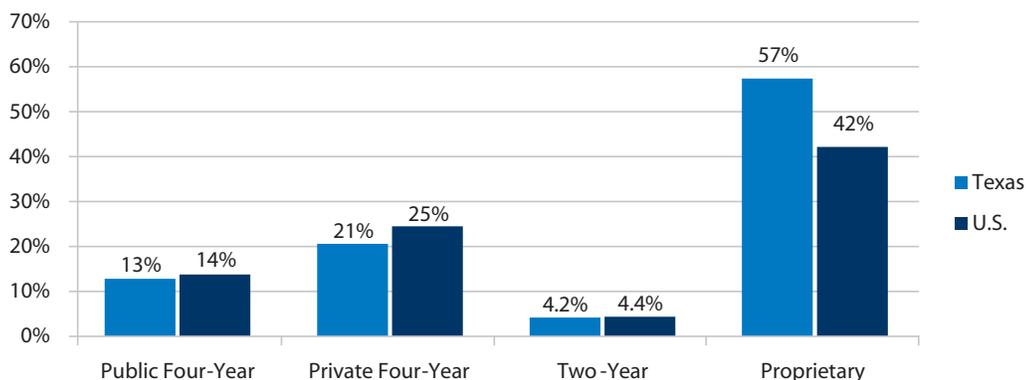
Source: *State of Student Aid and Higher Education in Texas, 2010*

The most common source of student loans besides the federal government has been private loans. These loans are made by private lenders and are usually more expensive for the student than federal loans. Private loan borrower rates also fluctuate by school sector, with students attending proprietary schools most likely to borrow. In Texas, 57 percent of proprietary school students had private loans in AY 2007-08, which was above the national rate of 42 percent. Four-year private school students used private loans at a lower rate of 21 percent in Texas and 25 percent in the U.S. Private loans are rare for students enrolled in public schools. Thirteen percent

** Note: These MBI statistics are only for Federal Stafford Loan borrowers with guarantees by TG. TG is the designated guarantor for Texas and maintained a market share of roughly 85 percent of all federal loans for Texas students. Due to changes to the federal student loan programs, reporting MBIs beyond FY 2008 is problematic.

of Texas four-year public school students and only 4 percent of Texas community college students took out private loans in AY 2007-08. **Students who borrow private loans boost their median total debt by thousands of dollars.**²⁷

Figure 11: Undergraduate Private Loan Borrower Rates



Source: U.S. Department of Education, NPSAS (2008)

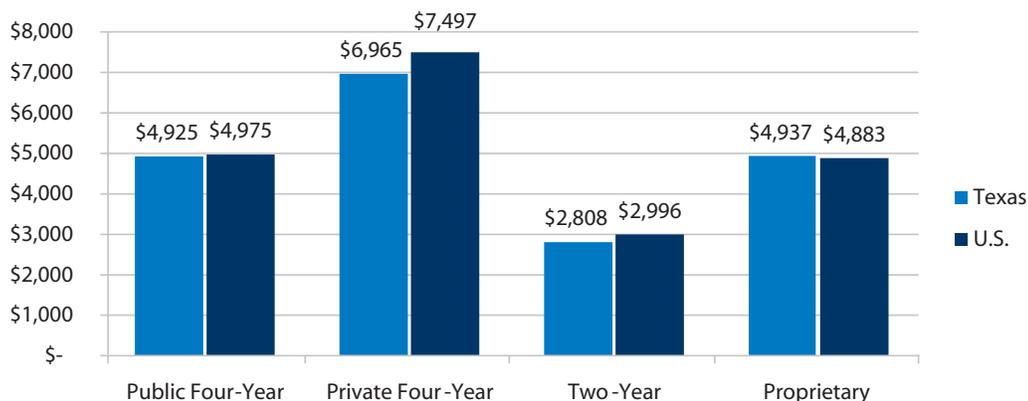
For the 21 percent of Texas private college students who have a private loan, the median private loan amount was \$6,965. While this is well below the national median of \$7,497, it still represents a significant investment and raises the financial stakes of going to college. Proprietary school students borrow more frequently than other students, but borrow less than four-year private college borrowers — \$4,937 in Texas and \$4,883 in the U.S. However, this additional debt beyond federal loans can be more burdensome for proprietary school students, since their expected median earnings are much lower than graduates of bachelor’s degree programs, and since they experience higher rates of unemployment.

The state of Texas offers a loan program — the Hinson-Hazlewood College Access Loan Program (HHL-CAL) — to Texas residents as a more favorable alternative to borrowing from private lenders. Private loans have widely varying interest rates, fees, and loan limits. Unless the borrower has perfect credit, and/or a cosigner with excellent credit, his or her private loan will likely have a far higher interest rate and fees than would a federal or state loan, which is subsidized with public money.²⁸

Pending a credit evaluation, a student enrolled at least half time can borrow up an HHL-CAL loan up to his or her cost of attendance minus all other aid. Although with no limits these loans can be quite large, they also have some perks. They have a six percent fixed interest rate, lower than the starting interest rate of many private loans²⁹, and a six-month grace period before repayment begins. Interest does not capitalize and there are income-sensitive and graduated repayment programs available for those who experience difficulty making payments.³⁰

In 2009, Texas students borrowed over 8,300 HHL-CAL loans totaling about \$83 million, with each student receiving an average of nearly \$10,000.³¹ Ideally, these more favorable terms enable students to enroll full time, making degree attainment a little more likely.

Figure 12: Undergraduate Private Loan Median Amount Borrowed



Source: U.S. Department of Education, NPSAS (2008)

The financial importance of degree attainment can be seen from figures from the U.S. Bureau of Labor Statistics. Based on 2009 annual national averages for persons 25 years and older, bachelor’s degree holders earn \$1,025 per week, or \$53,300 annually. Associate degree graduates earn \$761 per week, or \$39,572 annually. High school graduates earn \$626 per week (\$32,552 annually), while the largest earners are doctoral graduates at \$1,532 per week (\$79,664 annually). **Just as more education is associated with higher earnings, so too is it related to lower unemployment rates.** Bachelor’s degree recipients have been more protected from unemployment than associate degree earners and high school graduates, with unemployment rates of 5.2 percent, 6.8 percent, and 9.7 percent respectively.³² While having attended some college provides some economic benefit, the value of earning a degree is even higher, according to U.S. Bureau of Labor Statistics figures.

COHORT DEFAULT RATE

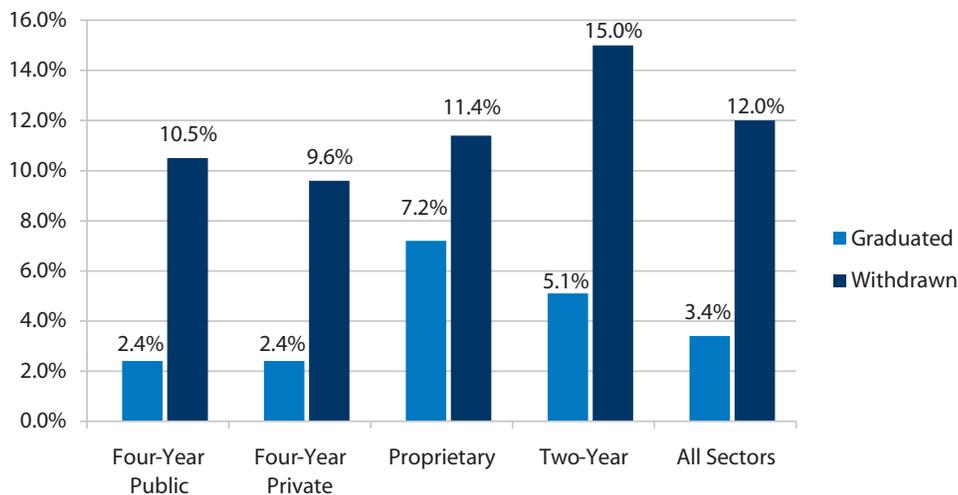
Dropping out of school is perhaps the most powerful predictor of future default on a student loan. Borrowers who are academically successful are better able to repay their loans. This pattern has persisted through economic booms and busts. The federal government has developed a standard measure of default, a “cohort default rate.”^{††} Using this measure on TG’s portfolio of Texas borrowers, graduates on average always out-perform dropouts regardless

^{††} The cohort default rate is the percentage of student borrowers with loans entering repayment in a given fiscal year who default on their loans before the end of the next fiscal year. The FY 2009 cohort default rate, for example, is based on borrowers who entered repayment during FY 2009 and subsequently defaulted before the end of FY 2010.

of school type. Borrowers who graduated from public and private bachelor’s degree-granting schools comprised an FY 2009 cohort default rate (CDR) of 2.4 percent. Borrowers who failed to earn their degrees fared far worse — such borrowers comprised a 10.5 percent rate at four-year public schools and a 9.6 percent rate at four-year private schools. Student borrowers who attended shorter-term programs had higher CDRs overall, but graduates were consistently more reliable repayers than non-graduates. **The correlation between graduating and repaying student loans is strong; efforts to improve academic success will also lower CDRs.**³³

The U.S. Department of Education (ED) may impose certain sanctions on schools with CDRs that are either persistently or excessively high. Persistently high rates are those in which the three most recent CDRs equal or exceed 25 percent; these can result in a school’s loss of eligibility to participate in both the Federal Direct Loan Program and the Federal Pell Grant Program. An excessively high rate — i.e., one that is greater than 40 percent for the most recent fiscal year — can result in a school’s loss of eligibility to participate in solely the Federal Direct Loan Program. In either case, a loss of eligibility could have a detrimental effect on both the school and its students. While high CDRs can result in sanctions for schools, low CDRs can earn schools regulatory relief. Schools that have CDRs of less than 10 percent are eligible for regulatory exemptions that streamline the loan disbursement process.^{34**}

Figure 13: 2009 CDR by Sector and Enrollment Status, Texas Schools



Source: TG internal report

** With the FY 2009 cohort, ED will begin transitioning from the 2-year to a 3-year CDR calculation. Under the 3-year CDR, a borrower will affect a school’s CDR if he or she enters repayment in a given fiscal year and defaults within the next two fiscal years.

CONCLUSION

Texas has an interest in student success. Successful students earn higher wages, have lower unemployment rates, and are less likely to default on their student loans. Finding the right balance of borrowing and working is key to increasing the likelihood of a student's success. High rates of part-time enrollment and working full time while enrolled, to the extent that they impede full engagement with the life of the campus, contribute to low graduation rates and high default rates. It appears as though many Texas students are choosing a less engaged approach to student life, in part as a way to minimize or avoid borrowing. Unfortunately, these well-intentioned decisions often prove detrimental as students reduce their chance of graduating.

Student loans are likely to remain a prominent instrument for paying for college in Texas, a necessary financial tool for low- and moderate-income students. As college costs rise, student borrowing has become ubiquitous. Fewer students are able to meet college expenses without spreading out payments over an extended number of years. Because Texas students tend to be more averse to borrowing and have fewer grant options, the policy challenge is to assist students in determining the appropriate level of student loans for their individual situation. These measures will help to improve graduation and transfer rates and also lower defaults. Students need trusted, unbiased resources to help guide and organizations to advocate for them as they move through the process of financing college.

This process begins with quality college outreach services to high school students contemplating their futures. Financial literacy training can empower college students to manage their finances prudently and their expenses frugally. Financial literacy training customized for college students can also help students plan their careers wisely, informing students what salaries to expect with particular programs of study and the debt associated with these programs. Professional, qualified loan counseling will enable students to more thoroughly understand the rights and obligations that accompany their loans. If student borrowers do encounter difficulties paying back their loans, they need a place to turn. A neutral party that will advocate on behalf of students can provide essential delinquency and default prevention services that can keep borrowers in repayment. Borrowers need a proven source of advice that will guide them through a complex array of forms and procedures that can be especially bewildering to students who are the first in their families to attend college.

In addition to loan support services, the state's BOT and HHL-CAL programs provide valuable loan options that should lower the level of risk to students. While currently limited in reach, these programs provide students with meaningful alternatives to private loans.

Student loans are an imperfect but necessary tool for promoting college access and success. Responsible borrowing can allow more low- and moderate-income students to enroll full time and/or work only a minimum number of hours. In turn, this can enhance the quality of the educational experience and reduce the number of years to degree, saving money for both the student and the state.



Endnotes

ENDNOTES

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