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Office of the President

TO MEMBERS OF THE ACADEMIC AND STUDENT AFFAIRS COMMITTEE:

DISCUSSION ITEM

For Meeting of July 17, 2019

STUDENT LOAN DEBT PATTERNS AMONG UNIVERSITY OF CALIFORNIA UNDERGRADUATES

EXECUTIVE SUMMARY

In March of 2019, the University of California Student Association (UCSA) and The Institute for College Access and Success (TICAS) issued a report called “First Comes Diploma, Then Comes Debt” highlighting student loan debt patterns at UC. The findings mirror those in UC’s Annual Report on Student Financial Support and its Accountability Report.

This briefing will summarize the findings in the UCSA-TICAS report and tie them to other critical work on the affordability of a UC degree, including the work of the Total Cost of Attendance Working Group, Cal Grant reform, and Basic Needs.

Also included below is a short description of the University’s financial aid strategy at the undergraduate level – the Education Financing Model – as important context for the UCSA-TICAS findings.

BACKGROUND

The University of California’s undergraduate financial aid policy has the stated goal of “maintaining the affordability of the University for all students admitted within the framework of the Master Plan.” (Regents Policy 3201: The University of California Financial Aid Policy)

The Education Financing Model, or EFM, is the University’s strategy for implementing the Regents’ Policy. The EFM is an integrated framework that allows UC to:

- Measure the adequacy of UC funding dedicated to undergraduate financial aid;
- Allocate undergraduate financial aid funding across campuses; and
- Develop individual student financial aid awards (i.e., “financial aid packaging”).

Consistent with the focus on affordability, the EFM is guided by three critical principles.

1. **Total Cost of Attendance is the Context for Measuring Affordability.** The EFM recognizes that affordability for students and families must recognize all educational

costs, including books and supplies, room and board, transportation, personal expenses, health insurance, tuition, and fees.

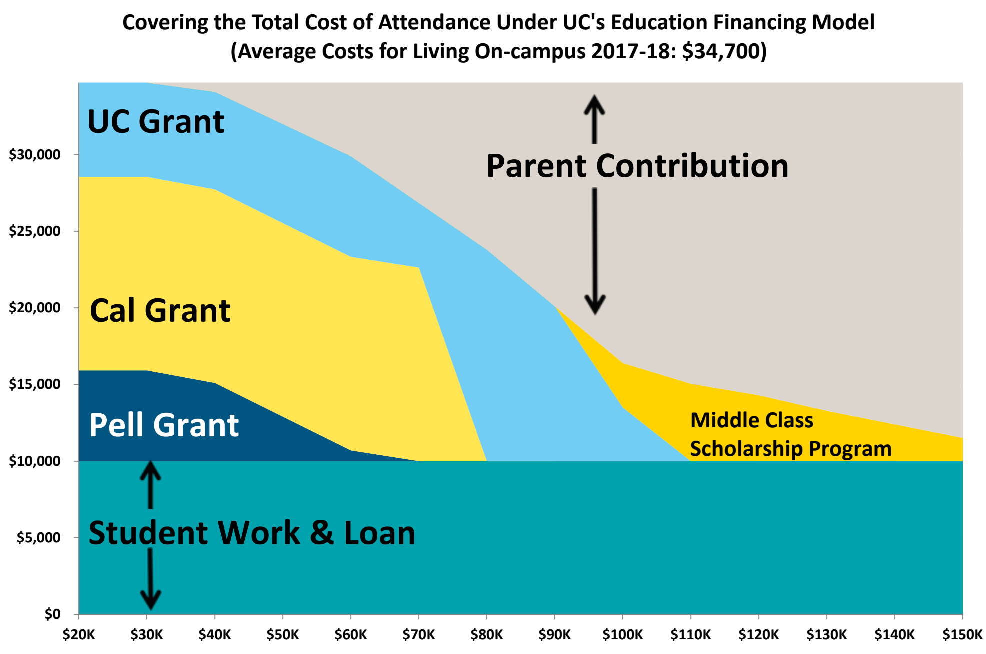
2. **Covering the Total Cost Requires a Partnership.** The University of California treats covering the total cost of attendance as a partnership between students, their parents, and state, federal, and University financial aid programs.

Parents	Students	Grant Support
• Ability to pay based on federal formula (income, assets, family size) using FAFSA • Expectations range from $0 to cost of attendance	• Work part-time (<20 hrs) during school year, full-time during the summer • Loan debt such that repayments are 5-9% of average income	• Cal Grants ($951M) primarily cover tuition • Federal Pell Grants ($400M) • UC Grant ($800M) fills in gaps: two-thirds cover living costs

3. **Students Working and Borrowing Must Be Manageable to be Affordable.** UC defines a range of manageable working and borrowing for both work and loan.

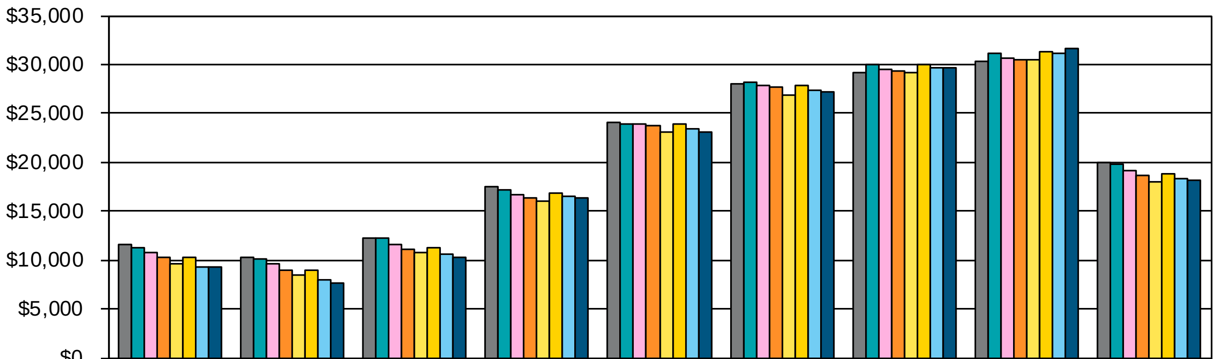
Figure 1 below presents a stylized view of how the EFM works across students by income. As can be seen, the student contribution, also known as "self-help," does not vary by income, while the parent contribution does. UC awards its own UC Grant to fill in the gaps between state and federal grants in order to be sure the total cost of attendance is covered by one of the partners.

Figure 1: Visualization of EFM



One way to view the outcome of this strategy is to see what the net cost is for families, or the total cost of attendance less any scholarship or grant. Figure 2 below shows the net cost for UC students and their families over time.

Figure 2: Trends in the Net Cost by Parent Income Among CA Residents, 2017-18 Constant Dollars
(Figure 1-13 from the *Annual Report on Student Financial Support*)



	Independent	Less than $29,000	$29,000 to $58,000	$58,000 to $86,000	$86,000 to $115,000	$115,000 to $144,000	$144,000 to $173,000	$173,000 and above	All CA Students
2010-11	$11,579	$10,240	$12,297	$17,523	$24,017	$27,983	$29,227	$30,240	$20,010
2011-12	$11,329	$10,140	$12,166	$17,203	$23,914	$28,178	$29,977	$31,176	$19,855
2012-13	$10,692	$9,637	$11,578	$16,736	$23,837	$27,805	$29,466	$30,659	$19,073
2013-14	$10,318	$9,019	$11,123	$16,394	$23,777	$27,683	$29,345	$30,551	$18,589
2014-15	$9,598	$8,388	$10,714	$16,037	$23,101	$26,899	$29,120	$30,462	$18,065
2015-16	$10,204	$8,925	$11,230	$16,824	$23,876	$27,892	$29,979	$31,322	$18,806
2016-17	$9,308	$7,994	$10,596	$16,543	$23,355	$27,326	$29,594	$31,103	$18,285
2017-18	$9,257	$7,680	$10,233	$16,297	$23,025	$27,134	$29,608	$31,599	$18,138

A few observations about Figure 2:

- Given the financial aid strategy outlined above, it is not surprising that net cost to attend UC rises with parent income.
- For families in the highest income bracket, the annual net cost of a UC education grew by over $1,359 between 2010-11 and 2017-18 in inflation-adjusted dollars.
- Increases in gift aid lessened the increase in net cost for low-income families. In fact, the net cost actually declined for independent students and for students in all but the top two income groups during this period in inflation-adjusted dollars.

UCSA-TICAS REPORT

The Institute for College Access and Success (TICAS) and the UC Student Association (UCSA) collaborated on a report on student financial aid and debt at UC. TICAS and UCSA worked closely with Student Affairs at the UC Office of the President to obtain data used in the report. The full report can be found online at https://ticas.org/sites/default/files/pub_files/first_comes_diploma_then_comes_debt.pdf.

UCSA was interested in finding students that may not be adequately served by the EFM within the context of statewide discussions of Cal Grant reform. The report is titled, "First Comes Diploma, Then Comes Debt: Unequal Debt Burdens among UC Undergraduates." It notes that the EFM "has substantial merit," but offers three key findings:

- Low-income students and students from underrepresented groups (URG) are more likely to borrow than their peers;
- Students would need to work unreasonable hours in order to avoid student debt; and,
- UC spends over $242 million of its own grant dollars covering tuition and fees for students who do not receive a Cal Grant but appear financially eligible for one.

Student debt patterns by family income, race, and ethnicity will be examined in more detail in the section below.

Within the context of national and statewide conversations about a debt-free path to a college degree, the UCSA-TICAS report attempts to calculate how much students would need to work to make UC a debt-free option. The amount they calculate is based on UC campus's own net price calculators at minimum wage and varies from 17.5 to 25 hours per week. UC considers 15-20 hours per week manageable.

The EFM is not a debt-free path to a UC education. The University would also conclude that trying to work part-time without borrowing would lead to unmanageable work hours for full-time students. Using UC's own definition of manageable part-time work, it would require an additional $500 million to create a debt-free option for UC undergraduates.

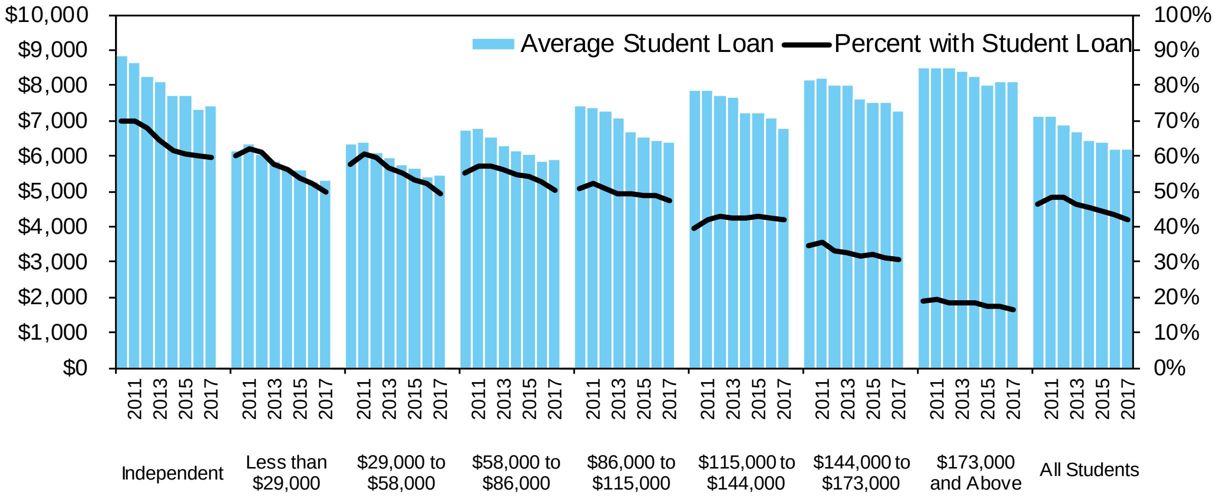
Finally, working in conjunction with UCOP Student Affairs, UCSA wanted to quantify how much of UC's own grant dollars cover tuition and fees for students not served by the Cal Grant program, but who appear to meet its financial and academic qualifications. These students may have missed out on Cal Grants as a result of a number of rationing devices built into the State's program, such as age limits, missed deadlines, etc. UC makes up for lost Cal Grants, holding the individual student harmless. However, if the estimated $240 million in UC need-based grants used to cover tuition was instead freed up to help with living expenses, it would lower the need to work and borrow for all needy UC students by about $240 annually.

UC DATA ON BORROWING PATTERNS OF UNDERGRADUATE STUDENTS

Borrowing by Income

The findings in the TICAS-UCSA report of borrowing rates by income are mirrored in UC's own *Annual Report on Student Financial Support* (https://www.ucop.edu/student-affairs/_files/regents_report_1718.pdf). Figure 5 below shows the trends of student borrowing over time.

Figure 5: Trends in Student Borrowing by Parent Income Among CA Residents, 2017-18 Dollars
(Figure 1-26 from the *Annual Report on Student Financial Support*)



A few observations about Figure 5:

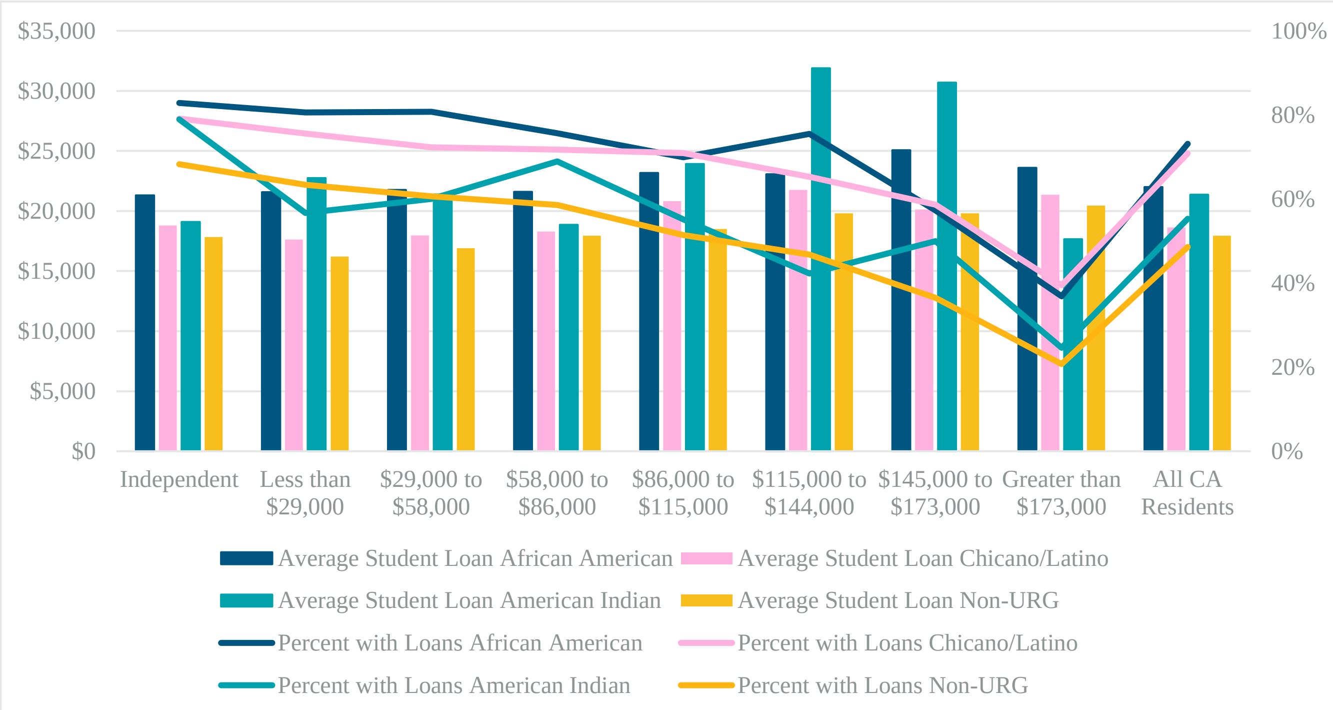
- Given that the EFM assumes students will borrow, UC would expect financial aid recipients would be more likely to borrow. Middle- and upper-income families may have ways to pay more so that their children do not have to borrow.
- The share of UC's California resident undergraduates who used student loans to help finance their education has declined over the last five years, from 48 percent in 2012-13 to 42 percent in 2017-18 (see the dark blue lines in the figure above).
- In constant dollars, the average amount borrowed has also declined over the past six years. Average borrowing levels declined from $7,154 in 2011-12 to $6,183 in 2017-18 (see the light blue columns in the figure above).
- The five-year decline in the proportion of students borrowing applies to students in all income categories, except those with family incomes of between $115,000 and $144,000, which remained relatively flat.

Declines in borrowing in recent years may be due to a number of factors. For students from middle- and upper-income families, the lack of tuition increases during this time period may be having an impact on their need to borrow. Also, the improving economy may mean that student wages have increased, allowing them to rely more heavily on work rather than loan.

Borrowing by Race and Ethnicity

Figure 6 illustrates the average cumulative student loan debt at graduation and percent with loan by income and race and ethnicity.

Figure 6: Cumulative Student Loans Debt at Graduation among Resident Undergraduates by Ethnicity and Income, 2017-18



A few observations about Figure 6:

- Even controlling for income, the amount of average student loan debt at graduation is greater for African American, Chicano/Latino, and American Indian students than non-underrepresented students.
- The percent with any debt at graduation is also greater for underrepresented groups across all incomes, with the share of students with loans being higher at lower-income levels, and decreasing as income level rises. Patterns for American Indian graduates should be interpreted carefully given small numbers.
- 81 percent of lowest-income African American and 72 percent of the lowest-income Chicano Latino students graduate with some debt compared to 63 percent of their non-underrepresented peers.
- The average student loan at graduation for African American students is the highest at just over $22,000 compared to $18,600 for Chicano/Latino students and just under $18,000 for non-underrepresented students.
- Though level of student debt generally increases with income for both groups, the cumulative debt for underrepresented students is the greatest in the $115,000-$144,000 income bracket.

Understanding Borrowing Outcomes by Race and Ethnicity

Understanding the student loan borrowing outcomes by race and ethnicity requires some analysis. Presented here are four important pieces of content that help explain the outcomes:

- National findings on borrowing
- How UC’s financial aid policies affect net cost
- Shortfalls in the FAFSA
- Time-to-degree

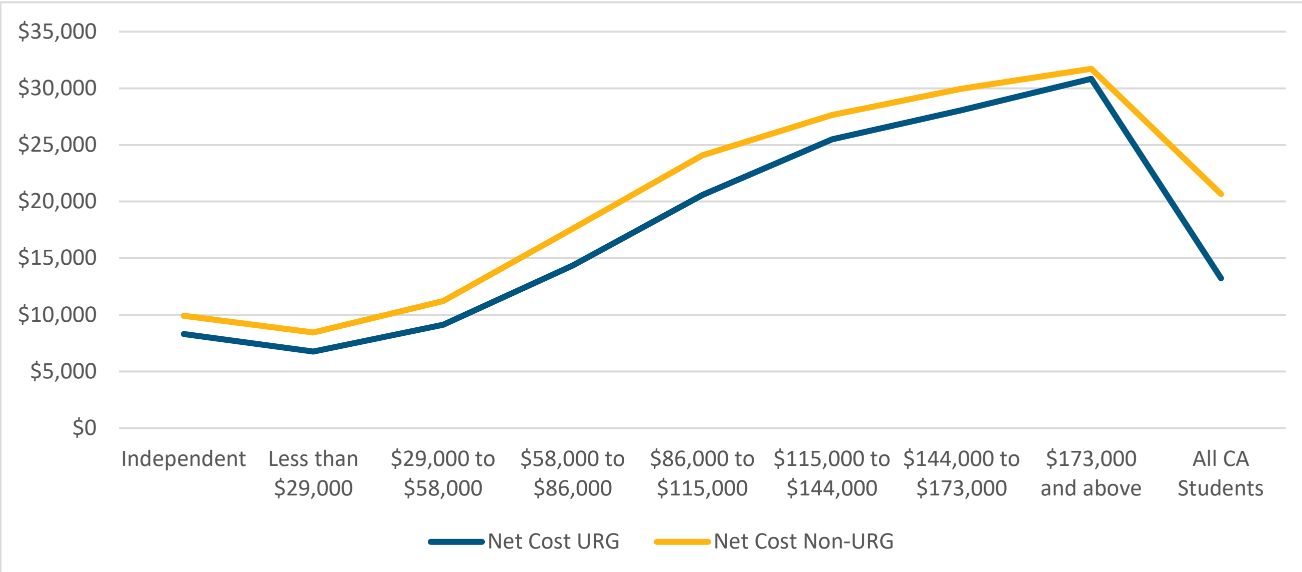
National Context

National reports have found similar outcomes to those observed at UC, particularly as it relates to African American students. In a Demos report titled, “The Debt Divide: The Racial and Class Bias Behind the ‘New Normal’ of Student Borrowing,” author Mark Huelsman documents some of the differences in borrowing across groups. Specifically, he notes, “While less than two-thirds (63%) of white graduates from public schools borrow, four-in-five (81%) of Black graduates do so. Latino graduates borrow at similar rates and slightly lower amounts than white students.”

Net Cost

At UC, the reasons for higher borrowing among students from underrepresented groups is not that they are receiving less in grants and scholarships. Figure 7 below shows the net cost – the total cost of attendance less any grants and scholarships – for underrepresented (URG) and non-underrepresented (Non-URG) students. Across income levels, the underrepresented students have a lower net cost. This is true both systemwide and at each campus. If UC were awarding gift aid (grants and scholarships) in a way that disadvantaged URG students, the net cost would be higher for those students.

Figure 7: Net Cost of Attendance for Undergraduates by Ethnicity and Parent Income, 2017-18



Shortfalls of the FAFSA

Like most colleges and universities, UC relies on the Free Application for Federal Student Aid (FAFSA) as the means for assessing the financial resources of a family. This is required for federal and state financial aid by statute and by Regents policy for University aid.

The FAFSA collects the data used to award financial aid and the Education Department uses its “federal methodology” to assess a family’s ability to pay, called the Expected Family Contribution (EFC). The EFC represents what a family should contribute to covering the total cost of attendance. The “federal methodology” balances trade-offs between keeping the form simple and accuracy. In other words, it could more accurately measure a family’s ability to pay if it gathered more information, but doing so would further complicate an already bureaucratic form and process. Figure 8 below highlights what is and is not part of federal need analysis.

Figure 8: Primary Elements of Wealth Used – and Not Used – in Federal Methodology

Elements of Wealth Used	Elements of Wealth NOT Used
Adjusted Gross Income of Custodial Parent(s) and Students	Income of Other Family Members (i.e., non-custodial parents, grandparents)
Assets of Custodial Parent and Student, Excluding Primary Residence	Primary Home
Number of Students Currently in College	Students Who Will Be in College in the Future
Size of Family	Different Costs of Living by Region
Current Contributions to Retirement Accounts	Retirement Assets

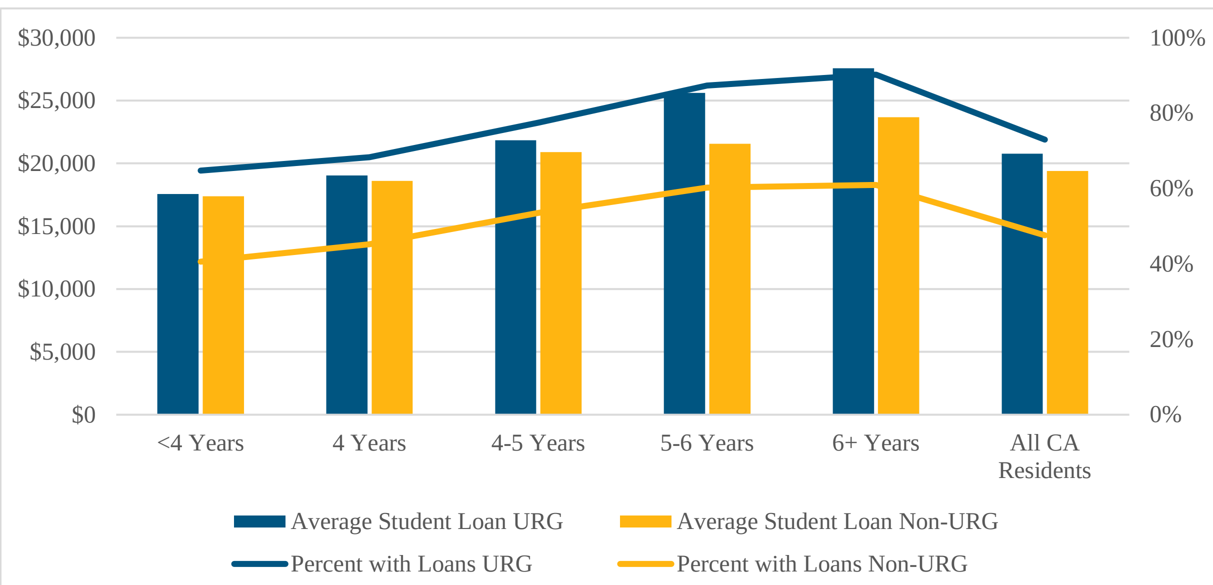
To the extent that the elements of a family’s wealth are distributed differently in society for students who come from underrepresented families versus those from non-underrepresented families, the federal methodology may be providing a flawed picture of a family’s wealth. For example, if home equity is indeed a resource that should inform how colleges evaluate a family’s ability to pay and underrepresented students are less likely to own a home, one might be overstating their ability to pay relative to a non-underrepresented student whose family income is similar.

Time-to-Degree

Finally, another finding that may help understand the differential borrowing by underrepresented students is the likelihood of graduating within four years. According to the UC Info Center, 55.4% of California underrepresented students graduated within 4 years compared to 73.4% of non-underrepresented students.

Isolating the borrowing outcomes by the number of years it takes to graduate makes it clear that the fifth year makes a large difference in borrowing by underrepresented students. Figure 9 below shows that while students from underrepresented groups are more likely to take out student loans than their peers regardless of how long they are enrolled, the difference in their debt burden is particularly affected by time-to-degree. The Total Cost of Attendance Working Group noted the importance of time-to-degree on affordability, which resulted in their recommendation that UC leverage summer session to help students finish more quickly.

Figure 9: Average Loans and Percent with Loans for Freshman Students by Time to Graduate and Ethnicity, 2017-18



CONNECTING THE REPORT TO OTHER AFFORDABILITY CONVERSATIONS

The UCSA-TICAS report is part of an active set of conversations across the State and the University on affordability for undergraduate students. This section will tie the UCSA-TICAS report to these other efforts, including:

- Total Cost of Attendance Working Group

- Cal Grant Reform
- Basic Needs

Total Cost of Attendance Working Group

In 2017, the Regents and the President established a special working group to review how the University estimates the total cost of an undergraduate degree, as well as how its financial aid practices help students cover college costs. The Total Cost of Attendance (TCOA) Working Group issued a final report with eight recommendations in November of 2017, which can be viewed at: https://diversity.berkeley.edu/sites/default/files/total_cost_of_attendance_working_group_.pdf. Three of the eight recommendations from the TCOA Working Group in particular relate to the findings from the UCSA-TICAS report.

Recommendation 1: Promote Summer Enrollment as a Way to Reduce Time-to-Degree and Advocate for Additional Cal Grant Eligibility for Summer

As the TCOA report states, "Speeding time to graduation is one of the most effective ways to reduce the cost of an undergraduate degree, and students who attend summer school are more likely to graduate in four years. In order to better help defray the cost of attending summer, the University should advocate for expanded availability of Cal Grants in summer to support summer enrollment."

The University has worked closely with UCSA to advance the availability of additional Cal Grant support in summer via legislative change. This will help students graduate sooner and, in turn, reduce their debt burden.

Recommendation 2: Expand Multi-Year Financial Aid Plans

The TCOA Working Group encouraged UCOP to work with campuses to expand an innovative UC Santa Barbara pilot program offering four-year financial aid promises to select new freshmen and two-year promises to select new transfers. Merced and San Diego have since begun promise programs.

The multi-year programs focus on the neediest students, providing them with promises of financial support as well as critical academic support. The multi-year plans address some of the concerns expressed in the UCSA-TICAS report, both by attempting to improve time-to-degree and targeting support to the neediest students.

Recommendation 6: Create Modest, Progressive Self-Help Models

The UCSA-TICAS report also suggests that UC consider lowering the self-help expectation for its lowest-income students. The TCOA Working Group wrestled with the same issue.

Because UC enrolls so many financially needy students, the cost of lowering self-help for the lowest-income students cannot be offset by raising the self-help for middle- and upper-income students without significant increases to those groups. For example, student self-help would need to increase by $2,000-3,000 for middle- and upper-income students in order to pay for a decrease of $1,000 for the neediest students.

Therefore, the Working Group recommended defining campus flexibility under the EFM to focus greater grant awards – and therefore lower self-help – to a smaller subset of students, perhaps to align with other university goals, e.g., increasing representation from certain high schools. In 2018, the Education Financing Model Steering Committee issued a set of principles for campuses to follow as they explore targeting some students for a lower self-help expectation.

Cal Grant Reform

The Legislature and other policymakers in Sacramento have been discussing broad-based reform of the State's Cal Grant programs. There are several proposals for reform, but most involve two broad features:

- Closing gaps in who qualifies for a Cal Grant, particularly those that do not have to do with demonstrated financial need, e.g., age cap on qualifying for the Cal Grant Entitlement program; and,
- Expanding coverage of non-tuition costs. Most Cal Grant dollars cover Tuition and Fees at UC and CSU.

Under the EFM, UC backfills for any "missing" Cal Grants by covering tuition for financially needy students. However, if the estimated $240 million in UC need-based grants used to backfill was instead freed up to help with living expenses, it would lower the need to work and borrow for all needy UC students by about $240 annually.

The UCSA-TICAS report sees Cal Grant reform as another opportunity to help reduce borrowing by UC students.

Basic Needs and Financial Aid

All of the conversations around financial aid in recent years have taken place against the backdrop of the work being done to help with students with food and housing insecurity. UC has used the total cost of attendance, including allowances for food and rent, as the context for awarding its financial aid for more than twenty years. The question is often asked how students can find themselves food or housing insecure when this is the case.

Financial aid programs as broad-based as UC's need to make a number of assumptions as financial aid awards are made. If any one of these assumptions fails to be true for an individual student, he or she may find themselves in a financial crisis. For example, if a student's parent is unable or unwilling to provide what the federal formula expects of them, the EFM will not work for that individual student. The University can and should continue to improve and refine its financial aid policies, but some assumptions will always be misaligned with the realities faced by individual students.

Basic needs support on campuses provide a valuable safety net for students while financial aid offices respond to individual circumstances. Financial aid needs the basic needs programs to holistically support all of UC's students; conversely, meeting students' basic needs requires an ongoing and robust financial aid programs at UC.