Borrowing for College

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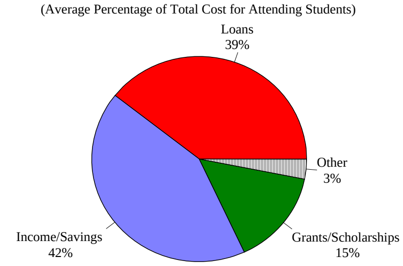
Highlights

- **During the 2007-2008 academic school year, 39 percent of undergraduate and graduate (i.e., postsecondary) educational expenses were paid through loans. (Students borrowed 23 percent and parents borrowed 16 percent.)**
- **Almost half of postsecondary educational expenses were paid by parents from current incomes, savings, and loans.**
- **In New York State in 2007, 63 percent of the students graduating from four-year colleges were in debt—the 20th-highest rate in the nation.**
- **The amount of debt held by New York State students upon graduation averaged $21,524 in 2007, placing New York 16th in the nation for new graduates with debt.**
- **According to the College Board, private student loans have expanded nationally by more than 600 percent over the past ten years.**
- **Among students with loans, the average debt (federal, state, and private) in the 2006-2007 academic year was $22,700—up 18 percent from 2000-2001 after adjusting for inflation.**
- **The national student loan default rate had hovered around 5 percent in recent years—far lower than the default rates during the late 1980s and early 1990s—but the rate rose to 6.9 percent in 2007 and is likely to rise further as the recession deepens.**
- **Sallie Mae reported that its loan default rate rose to 10.2 percent in 2008, up from 8.3 percent in the prior year.**

Over the past five years, the average cost of a college education has grown by over 30 percent, more than twice as fast as the inflation rate during this period. Moreover, parents and students have been increasingly relying on loans to finance undergraduate and graduate college education expenses. These developments have placed additional financial pressure on American families at a time when they can least afford it.

According to a study conducted by Sallie Mae and Gallup, the average American family borrowed 39 percent of the cost of postsecondary education during the 2007-2008 academic school year, and funded another 42 percent from savings or current income (see Figure 1).[1] Grants and scholarships covered only 15 percent of the cost.

Figure 1
How the Average Family Pays for College
(Average Percentage of Total Cost for Attending Students)



Note: Shares do not add up to 100% due to rounding.
Source: Sallie Mae and Gallup

Since the 2004 academic school year, student loans have funded a greater share of postsecondary education than scholarships and grants. Figure 2 shows that the amount borrowed by students grew at an annual rate of 9.6 percent between 2004 and 2008 to $86 billion, while grants and scholarships increased by only 7.4 percent to $77 billion. In contrast, scholarships and grants funded a greater share of postsecondary educational expenses between 1999 and 2003.[2]

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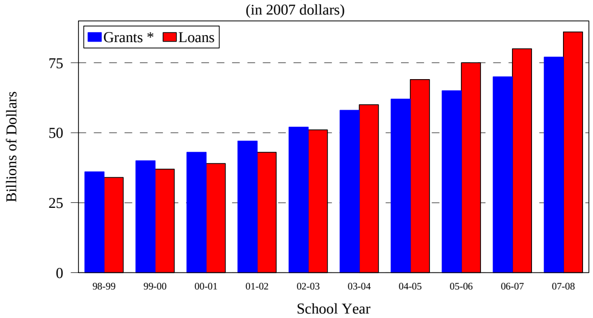
1 Sallie Mae and Gallup, *How America Pays for College 2008.*

2 The College Board, *Trends in Student Aid 2008.*

Figure 2

Trends in Student Aid and Loans for Postsecondary Education

(in 2007 dollars)



*Includes grants, work-study, and tax benefits.
Source: The College Board

According to the Project on Student Debt, nearly two thirds of students at four-year colleges had outstanding student loans when they graduated in 2004, compared with less than half in 1993. The average student debt rose from $9,250 in 1993 to $19,200 in 2004, an increase of 108 percent.

Parents are also borrowing to help finance college education costs. For example, in 2004, loans to parents under the federal Parent PLUS program averaged $17,709. Parents have also borrowed against home equity loans and incurred other forms of debt to help finance their children's college education expenses.

The current national credit crisis has adversely affected access to student loans. Sallie Mae, the largest private student loan lender, has significantly tightened its credit criteria, and the College Board will no longer originate federal or private student loans. In addition, 107 private lenders have suspended their participation in the Federal Family Education Loan Program (FFELP), a large private sector student loan program that provided about 78 percent of all student loans—more than $50 billion—in the 2004-2005 academic year.

The federal government has taken a number of steps to increase the accessibility of grants and loans. The Department of Education recently announced that it is buying $6.5 billion of student loans made by private lenders during the 2007-2008 academic year to stimulate the private student loan market. The American Recovery and Reinvestment Act of 2009 provides additional funding for Pell Grants, including a $500 increase in the maximum grant, which will provide $180 million for students in New York State.

The Federal Reserve intends to make $200 billion available through the Term Asset-Backed Securities Loan Facility to facilitate new consumer lending, including student loans. The President has proposed eliminating subsidies for financial institutions that lend to students and redirecting some $4 billion in savings as aid to students. The President has proposed other reforms to reduce the cost of student loans and improve access.

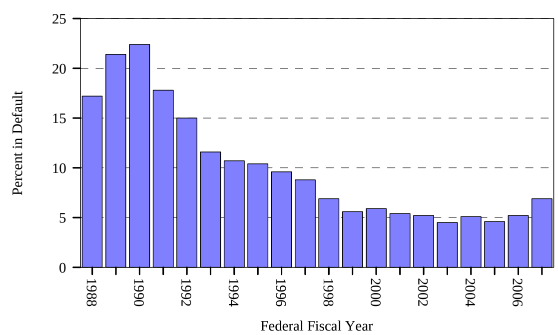
The New York State Legislature recently approved the Governor's proposal to create the New York Higher Education Loan Program to provide $350 million in loans to State residents enrolled in colleges or universities in New York.

During federal fiscal years (FFY) 1999 through 2006, the national student loan cohort default rate hovered around 5 percent (see Figure 3), far lower than the rates during the late 1980s and early 1990s, which exceeded 15 percent.[3] In FFY 2006, New York's default rate was 4.3 percent, nearly one percentage point lower than the national rate and lower than the rates of 32 other states.

As economic conditions worsen and unemployment rates continue to rise, student loan default rates can be expected to climb. The U.S. Department of Education has reported that the national student loan cohort default rate rose to 6.9 percent in FFY 2007, from 5.2 percent in FFY 2006. Sallie Mae, which controls almost 45 percent of the private student loan market, has reported that its loan delinquency rate rose to 10.2 percent in 2008, compared with 8.3 percent in the prior year.

Figure 3

National Student Loan Cohort Default Rates



Source: U.S. Department of Education

3 The cohort default rate is the percentage of borrowers who enter repayment in one federal fiscal year and who default or meet other specified conditions by the end of the next federal fiscal year.