# College Affordability in Maryland

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**and the**
**House Education and Economic Development Subcommittee**

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# College Affordability in Maryland

The second goal of Maryland's 2009 State Plan for Postsecondary Education is Access and Affordability, which recommends that Maryland break down financial barriers to higher education. However, due to several trends, as well as the recent economic recession, higher education has grown less affordable since 2009. One of the greatest signs of this is the steep increase in student loans seen across the country. To understand why student loans have grown rapidly, it is necessary to understand three trends.

- University costs have risen faster than most other goods and services over the past several decades due to a high reliance on personnel.

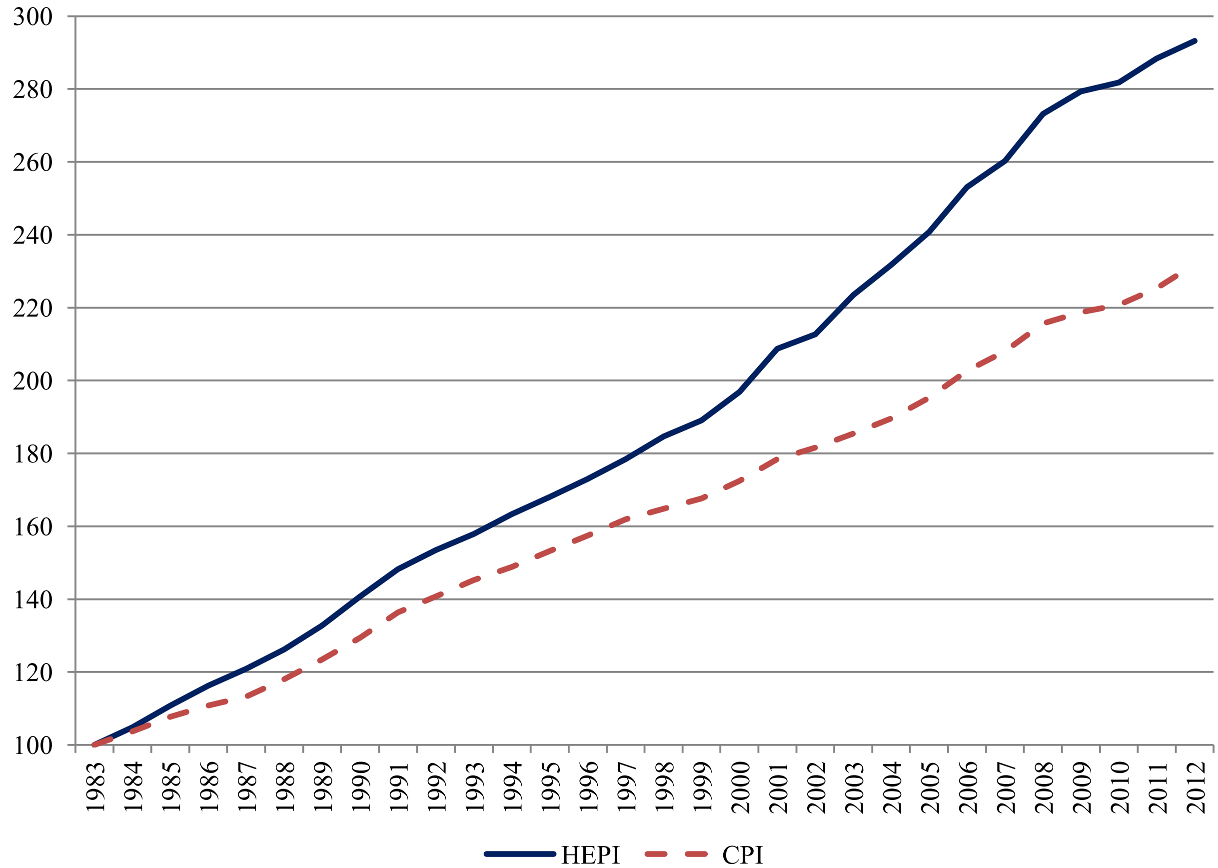
- For universities, tuition hikes are the simplest tool to counter rising operating costs.

- Despite rising tuition, scholarships and grants for financially needy students have increasingly fallen short of filling unmet need – loans fill this gap.

## Costs Rise for Universities – and Students

**Exhibit 1** shows the growth in the Consumer Price Index (CPI) and the Higher Education Price Index (HEPI). The CPI is produced by the Bureau of Labor Statistics and is the most widely used measure of inflation, or general increases in prices, in the United States. Because higher education costs differ significantly from the items that the CPI measures, the HEPI was developed to better track price changes for universities. The exhibit shows that, since 1983, the HEPI has been growing significantly faster than the CPI. For example, while it took the CPI until 2006 to reach 200 index units, the HEPI reached this mark in 2001. This is because the largest cost for operating any university has been in the salaries, pensions, healthcare, and other fringe benefits for faculty and administrators. Other factors, such as utilities, make up a very small portion of the HEPI. A full explanation of all the factors contributing to the rising cost of university tuition is beyond the scope of this analysis, but this exhibit suggests that the cost of running a university has increased much faster than the general cost of most goods and services. Whether the higher costs are being driven by the decisions of universities (that also set the tuition rates that enable salaries and the size of the workforce to be increased) is a long-running debate that will also not be resolved by the analysis.

**Exhibit 1**
**Growth in CPI Versus HEPI**
**1983-2012**




CPI: Consumer Price Index
HEPI: Higher Education Price Index

Note: The base year is 1983 when both indices equal 100 index units.

Source: 2012 Higher Education Price Index Report, Commonfund

In response to rapidly increasing operating costs, universities turned to the simplest measure for raising revenue – increasing tuition and mandatory fees. **Exhibit 2** shows the tuition rates and national rankings for Maryland and select competitor states from fiscal 2005 to 2013 for three segments: public two-year institutions, public four-year institutions, and independent colleges and universities.

**Exhibit 2**
## State Rankings by Public and Independent Tuition Rates
**Fiscal 2005 and 2013**

| | 2005 Ranking | 2005 State | 2005 Cost | 2013 Ranking | 2013 State | 2013 Cost |
|---|---|---|---|---|---|---|
| **Public Two-year Institutions** | | | | | | |
| | **8** | **MD** | **$3,602** | 9 | NJ | $4,218 |
| | 12 | PA | 3,469 | 11 | PA | 4,202 |
| | 15 | NJ | 3,389 | 13 | VA | 4,184 |
| | 30 | VA | 2,517 | **19** | **MD** | **3,875** |
| **Public Four-year Institutions** | | | | | | |
| | 2 | PA | $9,978 | 3 | NJ | $12,399 |
| | 4 | NJ | 9,652 | 4 | PA | 12,330 |
| | **7** | **MD** | **8,189** | 13 | VA | 9,907 |
| | 18 | VA | 6,749 | **27** | **MD** | **8,220** |
| **Private Nonprofit Four-year Institutions** | | | | | | |
| | **7** | **MD** | **$28,978** | **5** | **MD** | **$35,591** |
| | 10 | PA | 27,469 | 11 | PA | 33,847 |
| | 11 | NJ | 27,362 | 12 | NJ | 33,768 |
| | 29 | VA | 21,391 | 31 | VA | 26,356 |

Note: Institutions are ranked from highest tuition to lowest and includes the District of Columbia and Puerto Rico.

Source: *Trends in College Pricing*, The College Board

At the two-year level, Maryland ranked relatively poorly in fiscal 2005, having the eighth most expensive community college system in the country. Although community colleges set their own tuition and fees, Maryland's community colleges became relatively more affordable over this time period, falling to the nineteenth position, while the other three states included here all surpassed Maryland. The State provided funds to reduce tuition increases at community colleges in fiscal 2012.

At the four-year level, Maryland's tuition was relatively high in fiscal 2005, ranking seventh in the country. To reduce this high cost burden on students, Maryland froze tuition from fiscal 2007 through 2010 and has implemented tuition buy downs at most four-year institutions since fiscal 2011. Since these actions, Maryland now ranks twenty-seventh for tuition prices in the country, whereas Maryland's competitor peer states remained expensive or became relatively more expensive.

While Maryland features many prominent national independent institutions, these institutions moved from the seventh most expensive to the fifth in the same time period, although the actual dollar difference between Maryland's schools and states further down the list is relatively small. Most of Maryland's private, nonprofit schools are represented by the Maryland Independent College and University Association and receive State funding through the Sellinger Aid Program, which is primarily used for need-based financial aid for Maryland residents. The State's only other ability to influence affordability at independent institutions comes through its student financial aid programs.

While the buy down program for public four-year institutions has been very effective at keeping tuition increases predictable, a college education is not only beyond the financial means of low-income families but also many middle class families, particularly during and after the recent recession. Increasingly, students rely on some level of financial aid and debt to pay for postsecondary education, no matter in what segment the student enrolls.

## Financial Aid Supply Does Not Meet Demand

Financial aid is a very broad term encompassing grants, scholarships, work study, waivers, and loans. Aid can also be broken down by how a student qualifies for it as well as by the organization that disburses it. Aid is used to pay for the cost of attendance, which includes tuition, mandatory fees, room, board, textbooks, and other incidental expenses. St. Mary's College of Maryland (SMCM) is used as an example here in **Exhibit 3**.

The cost of attendance is also called the sticker price, as it is the total upfront annual cost of education. However, most students apply for and receive some grants or scholarship support from the federal government, state government, or the institution. Because of this, the effective price that the student pays is reduced. This net price for SMCM in fiscal 2011 was $20,521, a decrease of $6,859, or 25.1%. This means that for certain institutions with large financial aid resources or many low-income students who qualify for federal grants, the sticker price may be very misleading.

**Exhibit 3**
## In-state Cost of Attendance at St. Mary's College of Maryland
**Fiscal 2011**

| | |
|---|---|
| Tuition and Fees | $13,630 |
| Books and Supplies | 1,000 |
| Room and Board (On Campus) | 10,250 |
| Other Miscellaneous | 2,500 |
| **Total Cost of Attendance** | **$27,380** |
| Grant and Scholarships Aid | $6,859 |
| **Net Price** | **$20,521** |

Source: *College Navigator*, National Center for Education Statistics

The exact makeup of a student's financial aid package is greatly influenced by the results from the Free Application for Federal Student Aid (FAFSA). This online form compiles tax and savings information to estimate how much a student and the student's family should contribute to the total cost of attendance. This amount is called the Expected Family Contribution (EFC). In a perfect situation, the EFC and financial aid package cover the entire cost of attendance. This analysis will now consider trends in nonloan aid from the federal and State government.

At the federal level, the most significant nonloan aid comes from the Pell grant. Pell awards are given to students who could not otherwise afford college and have an EFC of less than a specified amount, which was $5,273 in both fiscal 2011 and 2012. For academic year 2012-2013, the maximum Pell grant is $5,550, the third year of no adjustment despite national tuition increases.

From fiscal 2008 to 2010, the amount of Pell grant funding increased rapidly at institutions nationwide. The U.S. Department of Education estimated about 40% of this growth was due to the recession creating more financial need, 25% came from an increase of $619 in the Pell grant in fiscal 2010, and the remainder came from various rule changes, such as adding the Automatic Zero Expected Family Contribution provision. This last change means that a student with an expected family contribution below a certain amount automatically gets a full Pell award.

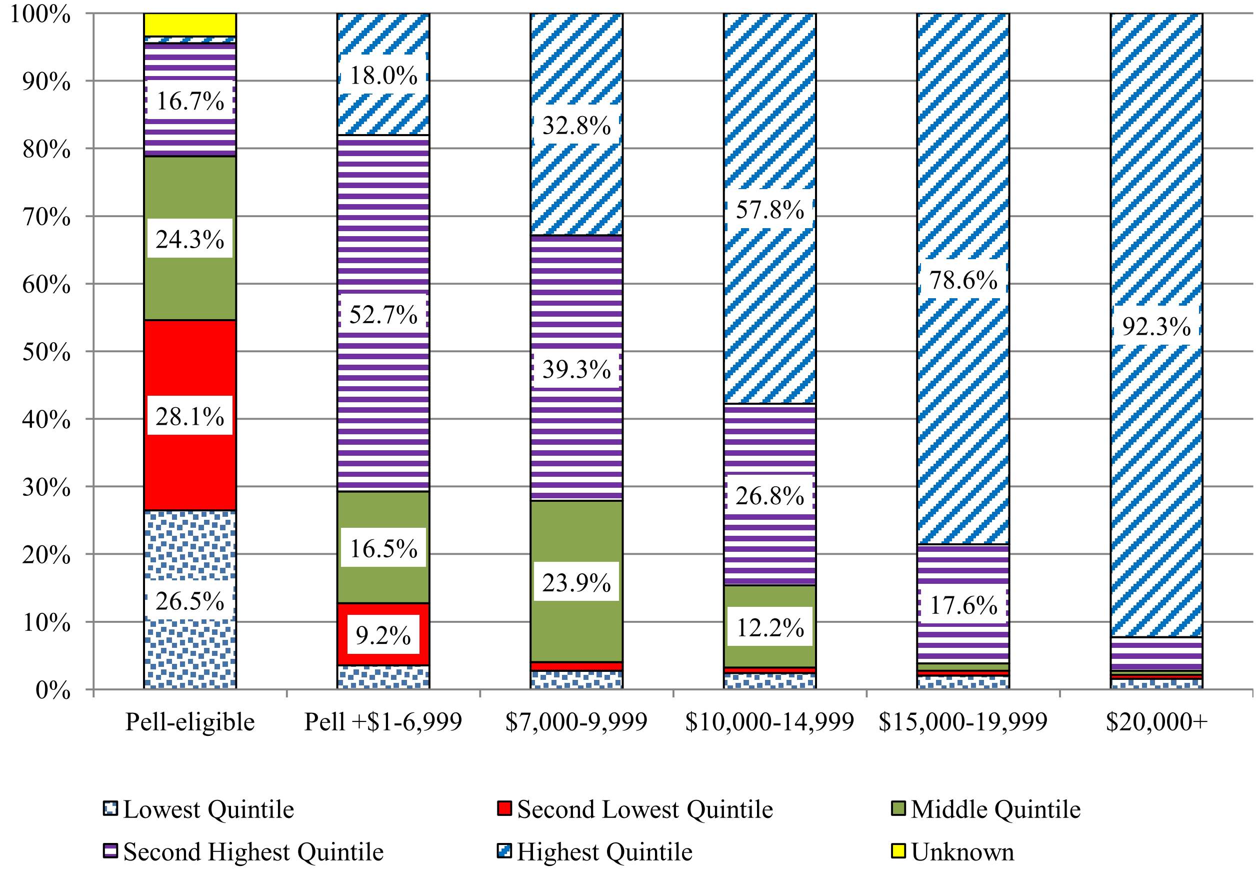
In fiscal 2012, federal actions significantly restricted eligibility retroactively by reducing the time a student may receive a Pell grant from 18 to 12 semesters and dropped the Automatic Zero Expected EFC threshold from $30,000 to $23,000 adjusted family income. Additionally, Congress eliminated the "double Pell grant" wherein students could receive a second Pell award within a single calendar year to pursue summer coursework to expedite graduation. Students must also now have a high school diploma or general education diploma, and Pell will only pay for a student to retake a class once. All rule changes went into effect on July 1, 2012. Institutions that serve needier student populations, such as Maryland's four historically black institutions (HBI), are concerned that these changes have harmed many students and contributed to moderate enrollment declines at Coppin State University (CSU) and Baltimore City Community College (BCCC).

It is important to note the difference between the EFC and the adjusted gross income (AGI), as computed for federal income taxes. While the EFC is related to family income, it is derived from other factors such as other members of the family in postsecondary education, other dependents, and invested assets. For this reason, a student from a family with a high AGI may still qualify for the Pell grant and other forms of need-based aid. In Maryland, AGI is divided into five ranges of equal population, or quintiles:

- $0 to $8,355 (lowest quintile);
- $8,356 to $23,740 (second lowest quintile);
- $23,741 to $42,000 (middle quintile);
- $42,001 to $80,000 (second highest quintile); and
- $80,001 and higher (highest quintile).

**Exhibit 4** shows EFC bands divided into the percent of each AGI quintile that makes up each respective EFC category in fiscal 2011. Pell recipients in Maryland represent the first four quintiles of income, in nearly equal proportions. More than one-half of Pell recipients have an AGI below $24,000. The students who just miss the Pell cutoff, the Pell+$1 to $6,999 EFC band, are mostly from the second highest quintile. This means that despite coming from what may well be a middle-income family, the student is not that far removed from the same level of financial need as the Pell-eligible students. The remaining EFC bands are dominated by the two highest AGI bands.

**Exhibit 4**
**EFC Bands Divided by AGI**
**Fiscal 2011**




EFC: Expected Family Contribution
AGI: adjusted gross income

Note: Bars not labeled with a percentage are less than 5%. Unknown reflects students with reported EFC and unreported adjusted gross income.

Source: Maryland Higher Education Commission

At the State level, Maryland offers several financial aid programs through the Maryland Higher Education Commission (MHEC) that are primarily targeted to need-based and unique populations, such as veterans and students in certain healthcare fields. Per the Budget Financing and Reconciliation Act of 2011, MHEC is phasing out the Distinguished Scholars program, which had been the State's merit-based program to retain high performing students in-state, after a decision to focus limited State resources on need-based aid. As of 2012, Maryland is now the only state to continue operating a legislative scholarships program. (For more information on State financial aid programs, see the Department of Legislative Services' budget analysis MHEC – Scholarships.) In Maryland, the largest programs in terms of award sizes and award numbers are in need-based programs, totaling $82.7 million in fiscal 2013. As shown in **Exhibit 5**, Maryland ranks seventeenth on a per student basis in the number of need-based undergraduate grant dollars going to undergraduate students. However, as a percentage of overall State support for higher education, Maryland falls to thirty-second in the country for the amount of funding for need-based state grants. In this exhibit, Pennsylvania and New Jersey are ranked much higher (better) than Maryland. This reflects both Maryland's high support for higher education funding in total and flat funding for need-based aid.

**Exhibit 5**

## Need-based Aid Per FTES by State

**Fiscal 2011**

| | Need-based Undergraduate Grant Dollars Per Undergraduate FTES | | State Grants as Percent of Total Higher Education Support | |
|---|---|---|---|---|
| | **$ Amount** | **Ranking** | **% of Spending** | **Ranking** |
| United States Average | $447 | – | 12.5% | – |
| Maryland | 376 | 17 | 5.9% | 32 |
| New Jersey | 976 | 1 | 16.3% | 9 |
| Pennsylvania | 639 | 9 | 18.3% | 7 |
| Virginia | 364 | 18 | 12.2% | 16 |

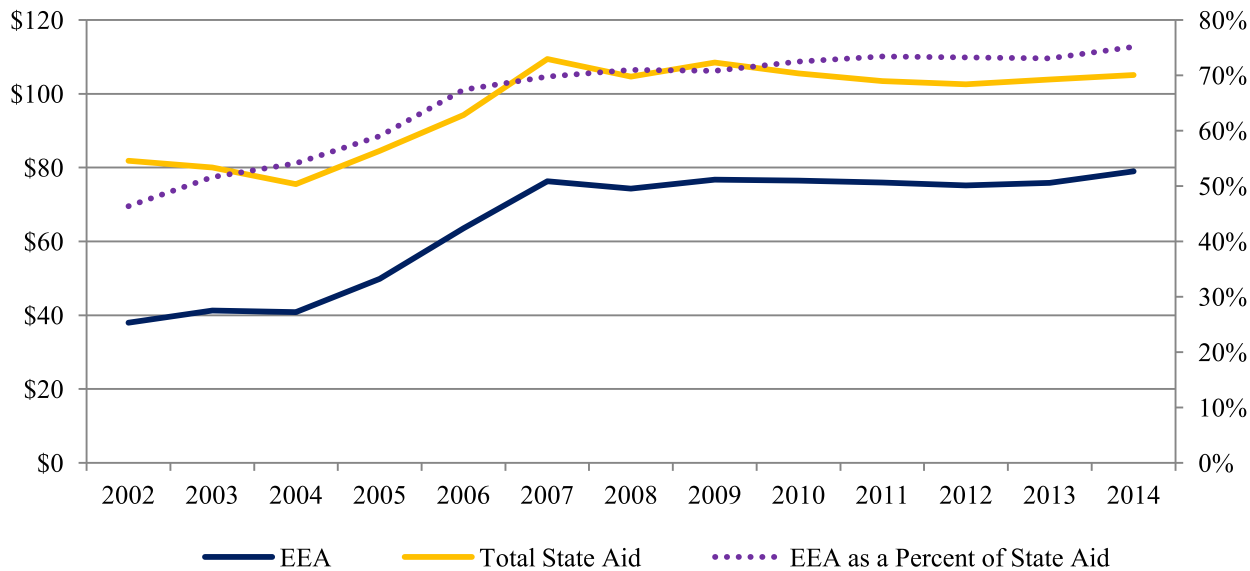
FTES: full-time equivalent students

Note: Undergraduate awards and students only.

Source: *42nd Annual Report*, National Association of State Student Grant and Aid Programs

As shown in **Exhibit 6**, funding for the State's largest need-based financial aid program, Educational Excellence Awards (EEA), grew rapidly between fiscal 2004 and 2007 due to the aforementioned policy shift away from merit-based aid to need-based. However, since EEA funding reached $76.7 million in fiscal 2009, it has remained level funded. By fiscal 2013, before deficiency appropriations, funding had decreased by 0.5% despite rising tuition and fees and increasing demand for need-based aid due to the recession and subsequent low economic recovery. Because State need-based programs such as the EEA are applied to student need after the federal Pell grant is considered, federal eligibility changes to the Pell grant program have a significant impact on how far State need-based financial aid will stretch in any fiscal year.

**Exhibit 6**
**State Financial Aid Funding**
**Fiscal 2002-2014**
**($ in Millions)**




EEA: Educational Excellence Award

Source: Governor's Budget Books, Fiscal 2004-2014

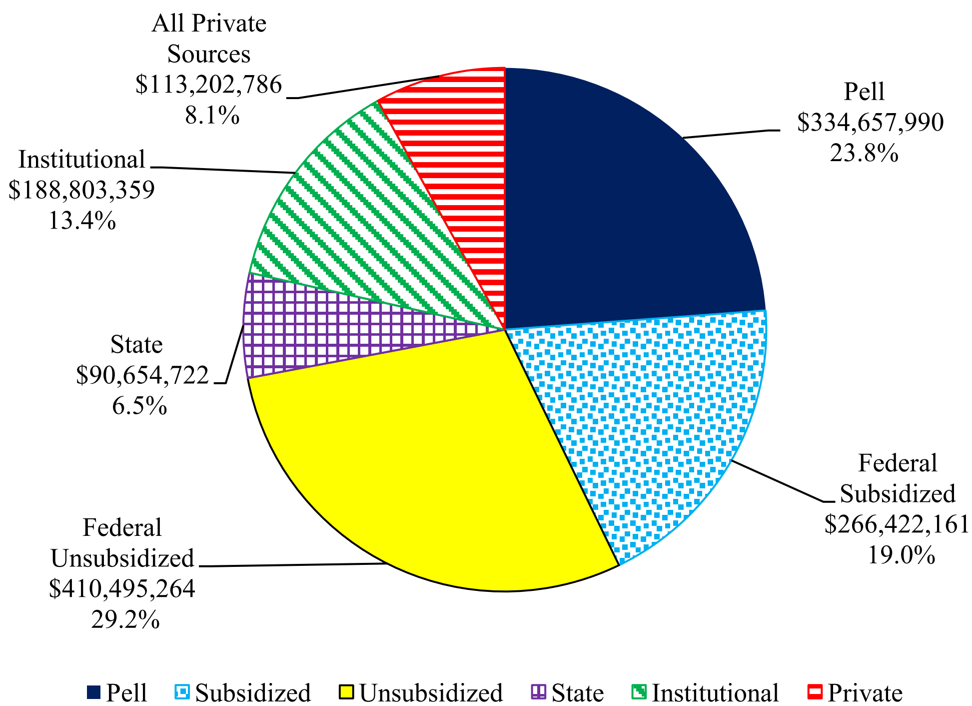
To date, in fiscal 2013, MHEC has awarded EEA grants to students with EFCs up to $2,000, while the same funding in fiscal 2009 reached students with EFCs up to $10,300. As a result of growing demand and level funding, the EEA waitlist has grown by over 17,291 students or 93.4% between fiscal 2011 and 2013. The amount of funding necessary to cover all waitlisted students in the current fiscal year, $71 million, is nearly the amount of the entire EEA program's funding. It is important to note that some students on the waitlist do receive aid from declined awards. However, most waitlisted students, despite being eligible for an award, will not receive any aid from programs in MHEC Scholarships. Many waitlisted students still enroll in postsecondary education, although some may not enroll full time or may delay entry.

## Need Met (and Unmet) by Financial Aid

MHEC's Financial Aid Information System (FAIS) tracks data on total student aid at Maryland's public institutions and Maryland residents at independent institutions (data from nonresidents is also collected now). The extensive information available allows for analysis of awardees by EFC level and how much need is being met by certain categories of aid. The following exhibits use FAIS data for undergraduate students who received any aid enrolled at Maryland's public institutions and Maryland residents who received State aid at independent institutions. This data excludes students who met more than 100% of their total need and students with an unknown EFC because no FAFSA was filed.

As shown in **Exhibit 7**, in fiscal 2011, total aid to undergraduate students tracked by MHEC's FAIS data totaled $1.4 billion. Nearly three-quarters of financial aid was made up of Pell grants and federal loans, both subsidized and unsubsidized. Institutions were the second largest source of aid (13.4%), and private sources, at 8.1%, provided slightly more funding than the State, at 6.5%. Subdividing the federal loans reveals that about 40.0% is subsidized and 60.0% is unsubsidized.

**Exhibit 7**
**Total Undergraduate Financial Aid by Type**
**Fiscal 2011**




Note: Tuition waivers and work study are not included in this exhibit. "All Private Sources" and "Institutional" include grants and loans.

Source: Financial Aid Information System, Maryland Higher Education Commission

**Exhibit 8** shows need met by federal, institutional, and State aid and loans. Overall, need met across the segments varies greatly from about one-third at community colleges up to two-thirds at Morgan State University (MSU). The gap between the public two-year institutions and the four-year institutions is about 25%. Part of this difference is due to four community colleges not participating in the federal loan program, which significantly reduces the amount of need that can be met in that segment.

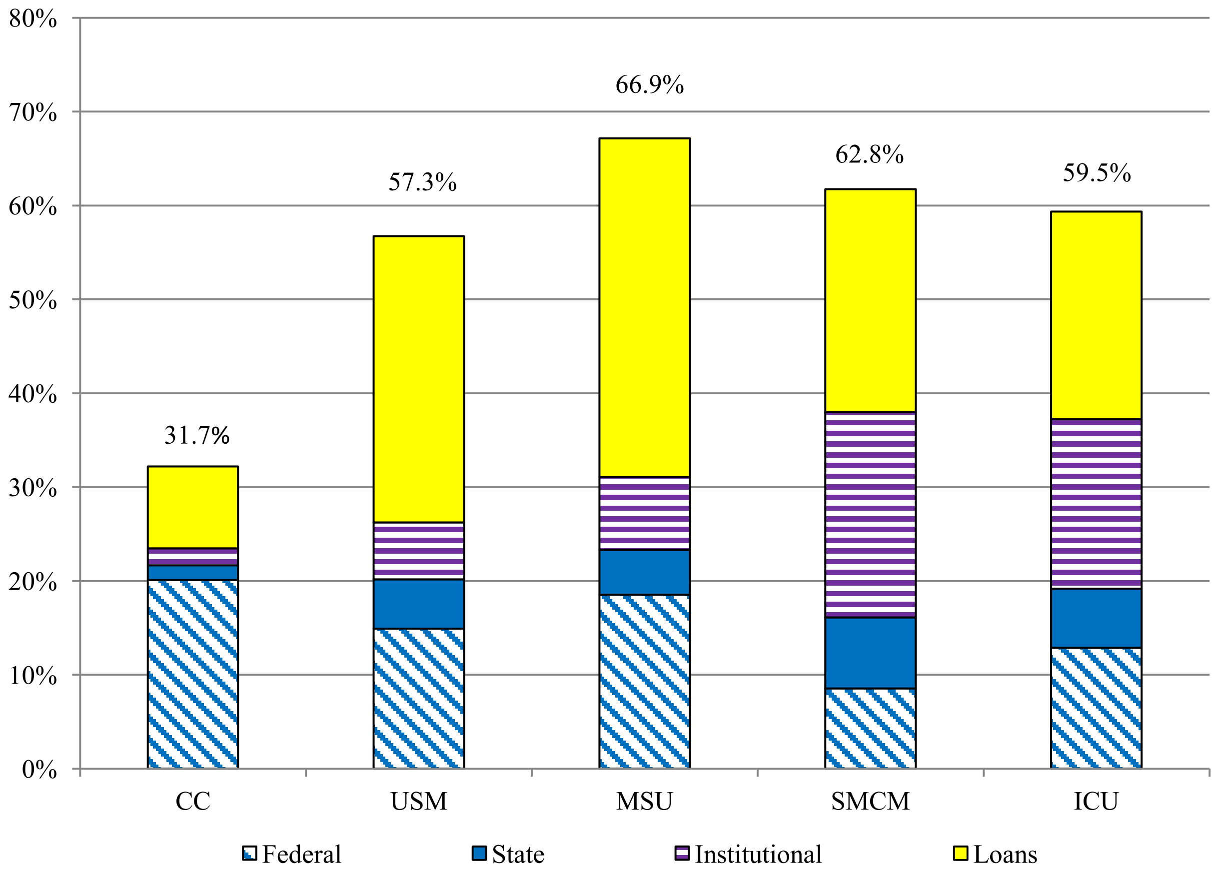
MSU meets the highest percent of need but loans account for the majority, about the same as the University System of Maryland (USM). The two-year segment, as mentioned above, uses fewer loans than the other segments.

SMCM and independent schools meet about one-third of need each with institutional aid, far more need met with institutional aid than in the other three sectors. State aid actually meets the most need at SMCM and the independent institutions. Overall, USM, MSU, and the community college system use mostly federal aid and loans to meet need, whereas independents and SMCM have a greater mix of sources.

**Exhibit 9** shows the same categories broken down by each community college. Overall, Carroll Community College meets only about 22% of need, while 6 community colleges meet more than 50% of total need. It is important to note that BCCC, Carroll Community College, Cecil College, and Chesapeake College do not participate in federal loan programs, so their rates for loans are 0%, or nearing zero at Chesapeake, as no new loans are being offered. Although most schools rely heavily on loans, there is significant variation in the amount of need met and in the sources used to meet that need across the 16 community colleges. Hagerstown and Anne Arundel, in particular, rely on a very high use of loans to meet need.

In general, State aid is not a significant part of need met. State aid meets 10.8% of need at Chesapeake but less than 1.0% at Allegany. Federal aid, which mostly made up of Pell grants, meets 14.8 and 16.7% of need met at Carroll and Cecil community colleges, respectively, whereas most schools only meet 5.0 to 8.0% of need through nonloan federal sources. Finally, institutional aid varies widely, from nearly 30.0% of need met at BCCC to only 2.0% at Allegany.

**Exhibit 8**
## Need Met by Segment
**Federal, State, and Institutional Aid and Loans**
**Undergraduate Students**
**Fiscal 2011**

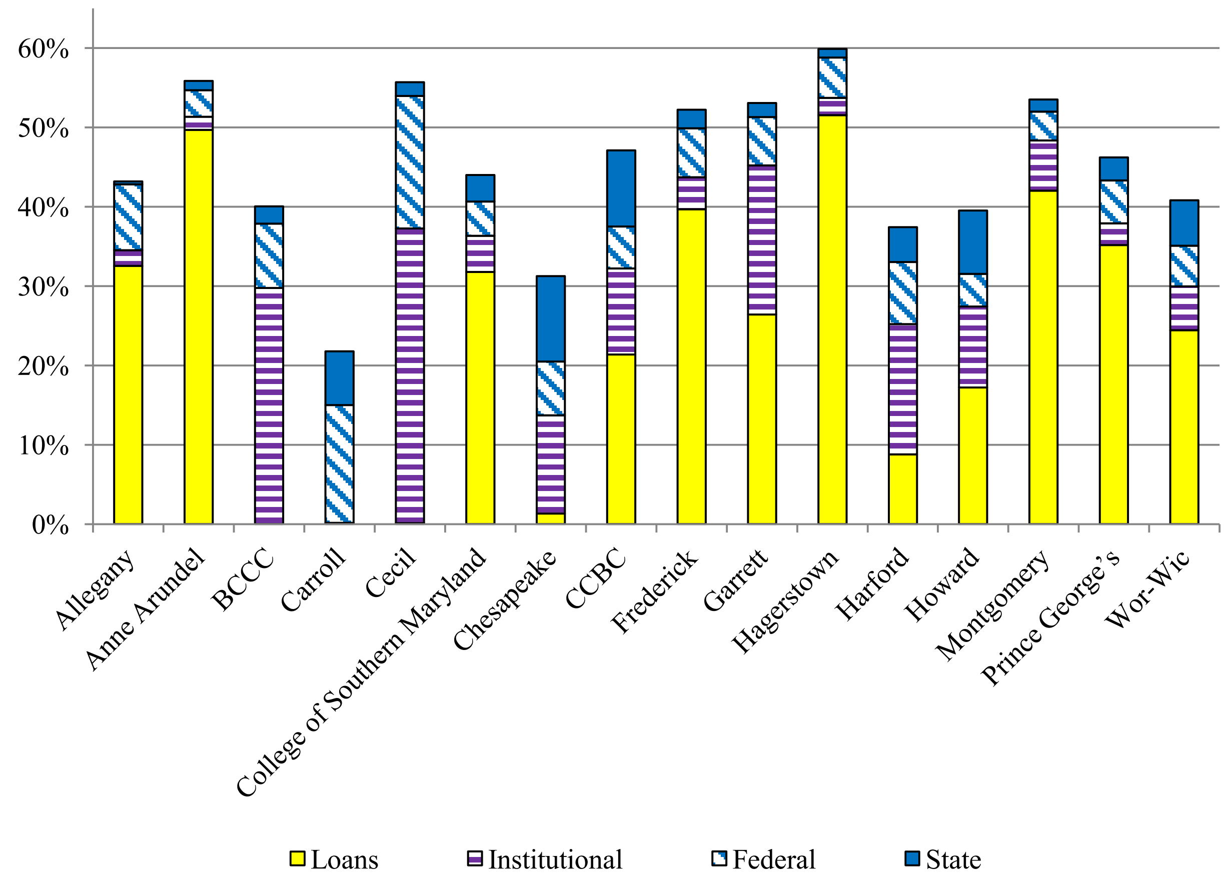



CC: community colleges
ICU: independent colleges and universities
MSU: Morgan State University
SMCM: St. Mary's College of Maryland
USM: University System of Maryland

Note: This includes undergraduate students only and loans and federal, State, and institutional aid only. Loans include federal subsidized and unsubsidized loans and private and institutional loans.

Source: Financial Aid Information System, Maryland Higher Education Commission

**Exhibit 9**
# Need Met by Community Colleges
**Federal, State, and Institutional Aid and Loans**
**Undergraduate Students**
**Fiscal 2011**



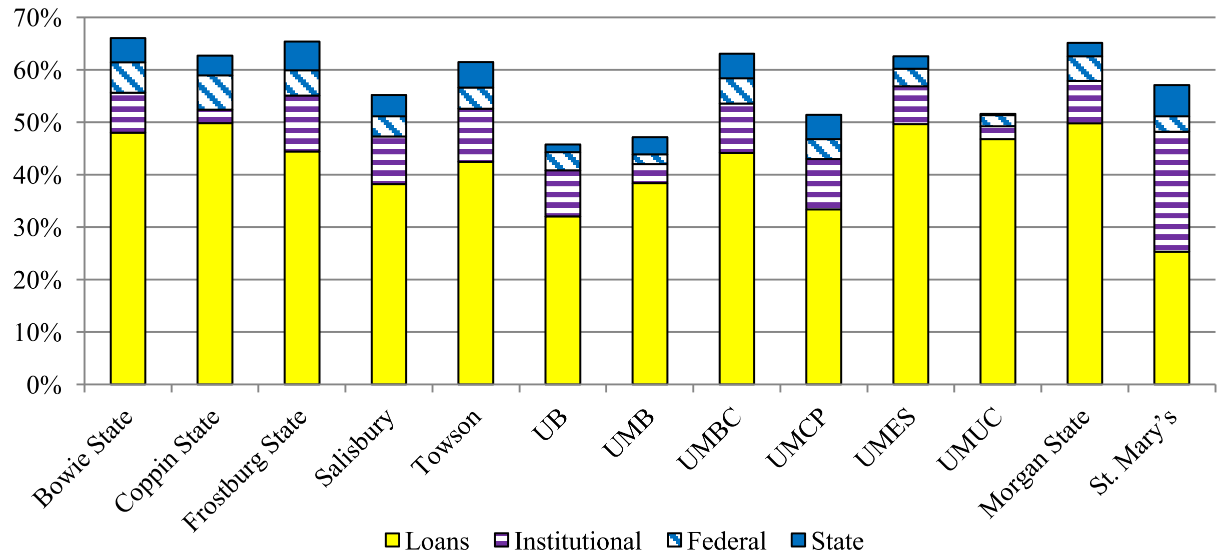

BCCC: Baltimore City Community College
CCBC: Community College of Baltimore County

Note: This includes undergraduate students only and loans and federal, State, and institutional aid only. Loans include federal subsidized and unsubsidized loans and private and institutional loans.

Source: Financial Aid Information System, Maryland Higher Education Commission

**Exhibit 10** shows the same breakout of financial aid for public four-year institutions. Overall, at least 46.0% of need is met, the lowest at UB, and up to 68.8% at Frostburg State University (FSU). All institutions have at least 25.0% of need met through loans, with CSU, the University of Maryland Eastern Shore, and MSU reaching over 50.0% of need through loans. Institutional aid is the next largest category meeting need, with SMCM meeting over 20.0% of need with institutional aid alone, while CSU, the University of Maryland, Baltimore (UMB), and the University of Maryland University College (UMUC) meet very little need through this type of aid. Federal and State grants and scholarships are generally a small portion of need met at each school. State aid as a percent of need met is especially low at UMUC and UB, whereas it is relatively higher at SMCM and FSU. Federal aid meets about 2 to 6% of need at all schools, but this varies for institutions with a higher number of Pell recipients.

**Exhibit 10**
**Need Met by Public Four-year Institutions**
**Federal, State, and Institutional Aid and Loans**
**Undergraduate Students**
**Fiscal 2011**




UB: University of Baltimore
UMB: University of Maryland, Baltimore
UMBC: University of Maryland Baltimore County
UMCP: University of Maryland, College Park
UMES: University of Maryland Eastern Shore
UMUC: University of Maryland University College

Note: This includes undergraduate students only and loans and federal, State, and institutional aid only. Loans include federal subsidized and unsubsidized loans and private and institutional loans.

Source: Financial Aid Information System, Maryland Higher Education Commission

As shown in the previous exhibits, because of the rising costs of pursuing higher education and the limited scholarships and grants available, many students and families turn to educational loans to fill unmet need. Furthermore, the MHEC FAIS data indicates that many students enrolled have a high amount of unmet need remaining after federal, State, institutional aid and loans. A recent preliminary MHEC analysis of FAIS data concluded that 43% of undergraduate first-time, full-time students at Maryland's public four-year universities who received any aid had unmet need, and this fell disproportionately on low-income students. The unmet need remaining may be a similar dollar amount across EFCs, but the loan burden ends up being proportionally higher for low-income students than others, even after accounting for federal aid, such as the Pell grant. MHEC also found a weak negative correlation between unmet need and retention and graduation. While the results are tentative, they seem plausible, given the exhibits above. Overall, many students are forced to rely greatly on educational loans, as nonloan sources meet well under one-half of need. In 2011, students at USM institutions used loans to meet 2% more need than in 2009.

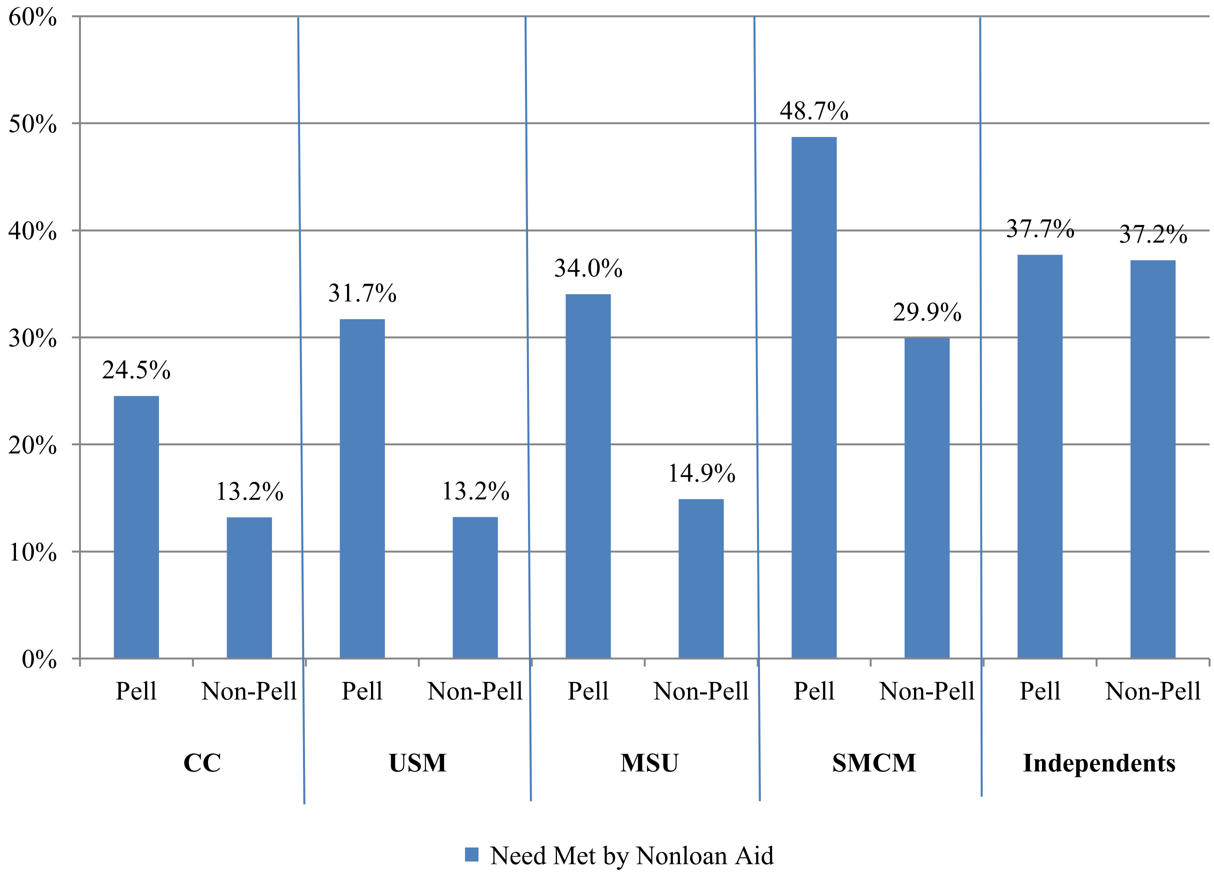
**Exhibit 11** shows how much need is met by nonloan sources for Pell recipients and students with an EFC above Pell eligibility across the segments. Pell students have the highest average need met, although the amount met is nearly identical to the non-Pell students at the independent institutions. The community colleges, USM, and MSU all meet a similar average amount of need through nonloan sources for non-Pell students, around 13 to 15%. SMCM meets about twice as much need at about 30%, whereas the independents meet 37%. This means, even in the best case scenario, at least 40% of need remains unmet and generally can only be filled with student loans. While Pell students are in a relatively better position than their peers, they still face significant loan burdens according to this data.

As the students in the Pell+$1 to $6,999 have financial need, as shown in Exhibit 4, it is useful to examine their average percent of need met within a particular segment. **Exhibit 12** shows need met for students in this group for just loans and institutional aid. From this exhibit, it appears that there is a relationship between the amount of loans that meet need and the amount of institutional aid that meets need. In particular, Maryland's HBIs rely more heavily on loans to meet need than other schools. UMUC and UMB also appear to be institutions that greatly rely on loan financing. SMCM is very unusual in that its institutional aid actually greatly surpasses the amount of need met by loans.

**Exhibit 11**

**Need Met by Nonloan Aid for Pell and Non-Pell Recipients**

**Fiscal 2011**

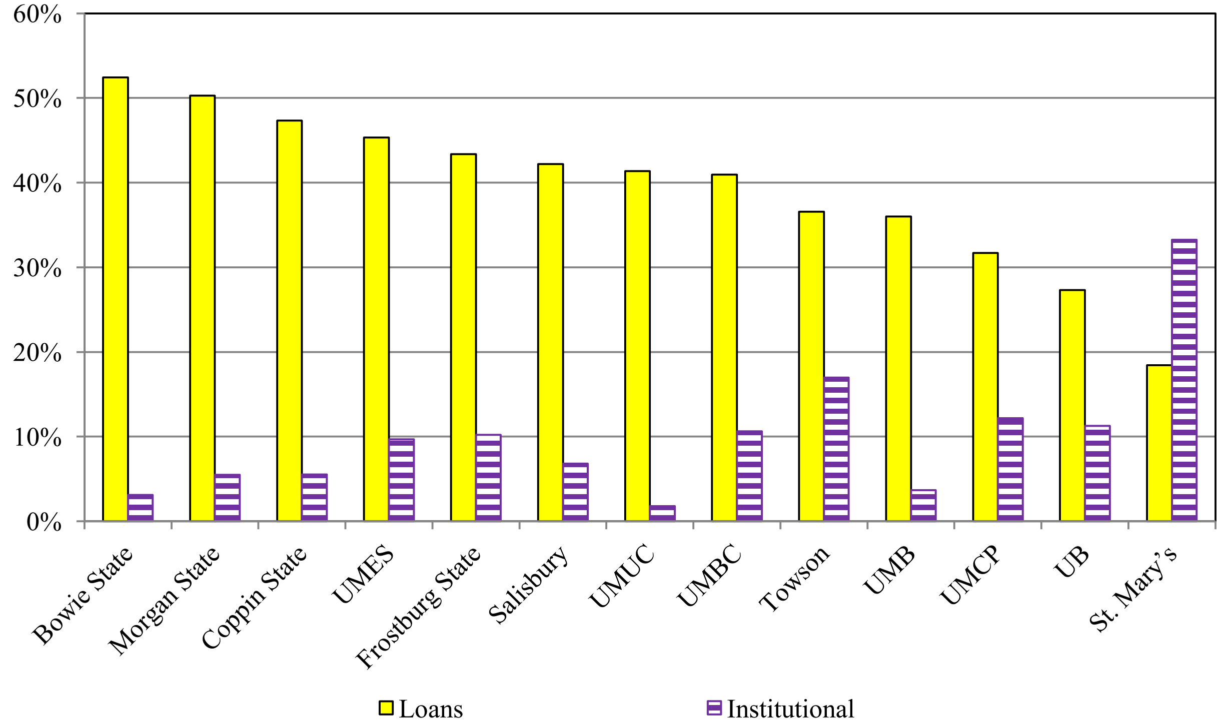



CC: community colleges
MSU: Morgan State University
SMCM: St. Mary's College of Maryland
USM: University System of Maryland

Note: This exhibit shows only federal, institutional, and State financial aid.

Source: Financial Aid Information System, Maryland Higher Education Commission

**Exhibit 12**
**Need Met for Pell +1 to $6,999 EFC by Public Four-year Institutions**
**Fiscal 2011**




EFC: Expected Family Contribution
UB: University of Baltimore
UMB: University of Maryland, Baltimore
UMBC: University of Maryland Baltimore County
UMCP: University of Maryland, College Park
UMES: University of Maryland Eastern Shore
UMUC: University of Maryland University College

Source: Maryland Higher Education Commission

## Student Loans

In general there are two sources for student loans in higher education: the federal government and private financial institutions.

### Federal

Although federal loans existed before the 1965 Higher Education Act, it was Title IV of this Act that established many of the precursors of federal aid programs widely known today such as Pell Grants, Perkins Loans, and Stafford Loans. Perkins and Stafford loans allow students and, in some cases, their parents, to borrow money with relatively low interest rates and flexible repayment options. According to the Consumer Financial Protection Bureau, outstanding federal loans in the third quarter of 2012, the most recent data available, stand at $956 billion, or about 85% of total student loans. It is important to note that this figure includes all active student loans, so much of this figure is made up of currently enrolled students who have deferred payment because they are in school full time. On the other hand, this figure only accounts for the original loan amount and does not include any capitalized interest, which is not tracked.

In 2010, President Barack H. Obama reorganized the federal student loan market by making the U.S. Department of Education the direct servicer, or provider, of all federal student loans, rather than an intermediary, such as SLM Corporation (often called Sallie Mae). This was meant to simplify the loan process for both students and the federal government. In federal fiscal 2013, the U.S. Department of Education expects to lend about $121 billion in new loans, an 11% increase from 2011.

**Exhibit 13** shows the maximum amount of loans that may be taken out by student type and federal loan program. Parent PLUS loans are excluded from this exhibit because PLUS loans are only capped by the total cost of attendance minus any other aid. Overall, students have a tremendous amount of financial credit available to them, generally at least $31,000 for undergraduate studies.

**Exhibit 13**

## Maximum Federal Aid Possible

| | | Undergraduate | | |
|---|---|---|---|---|
| | | **Dependent** | **Independent** | **Graduate** |
| **Stafford** | Maximum | $31,000 | $57,500 | $138,500 |
| | Subsidized* | 23,000 | 23,000 | 65,500 |
| **Perkins** | Loan Maximum** | $27,500 | $27,500 | $60,000 |
| **Pell** | Grant | $33,000 | $33,000 | |
| **Total Loans Possible** | | **$58,500** | **$85,000** | **$198,500** |
| **Total Federal Aid Possible** | | **$91,500** | **$118,000** | **$198,500** |

*This is the total amount of the maximum Stafford loan amount that may be subsidized.
**Not all schools offer this amount.

Note: Graduate amount includes undergraduate loans. Limits are as of academic year 2012-2013. Excludes Parent PLUS loans.

Source: U.S. Department of Education

### Private

According to the Consumer Financial Protection Bureau, private student loans represent about $150 billion, or about 15%, of the $1.1 trillion student loan market. Most private loans are issued by specialized financial institutions, such as Sallie Mae and American Education Services, but many are also secured through large banks, credit unions, and other financial organizations.

While overall, federal student loans offer better interest rates than personal loans, not every student is aware of the federal loan process or may have exhausted all federal aid. Private loans generally have an interest rate pegged to some banking industry interest rate, like the London Interbank Offered Rate, whereas the federal government discontinued adjustable rate loans in 2010 to simplify its loan programs.

Private student loan interest rates are generally higher than government loans or other types of loans for three reasons.

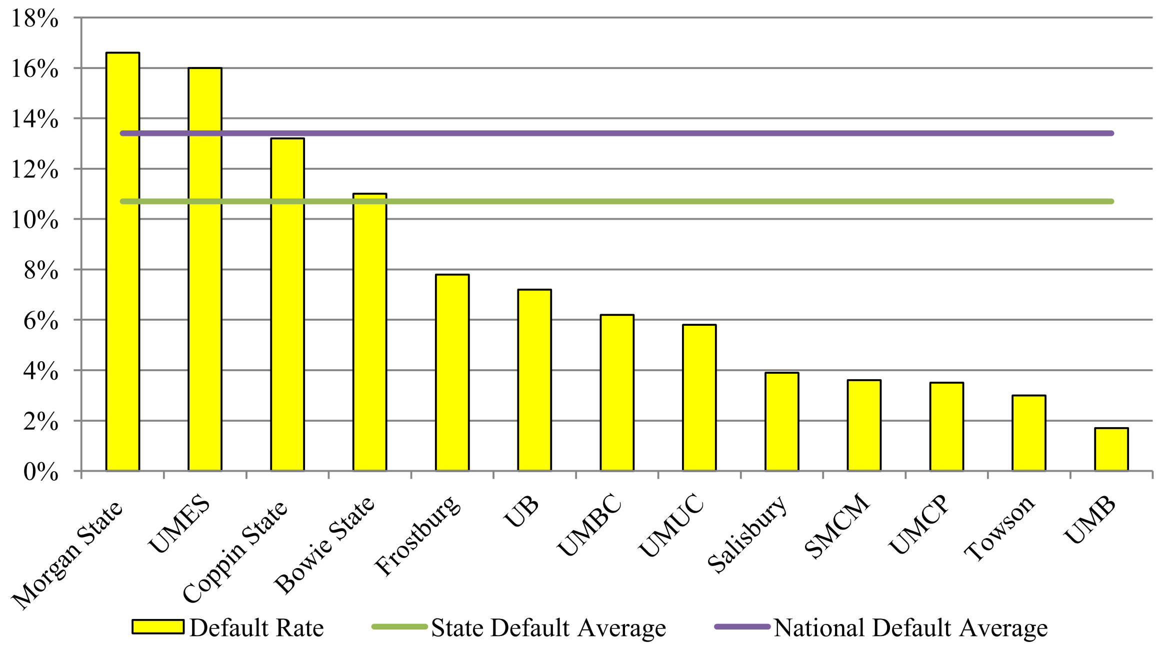
- Until recently, very limited credit checks were done on student loan borrowers.
- No down payment is required to establish a borrower's equity in the college degree.
- No collateral exists to seize in the event of a loan default.

### The Broader Effects of Student Loans

Similar to concerns highlighted during the recent mortgage crisis, many student loan borrowers have difficulty refinancing their debt to take advantage of low-interest rates due to a lack of refinance options and difficulty securing employment in the current labor market. Moreover, some defaulters stop out or drop out of school, meaning they bear all the responsibility of repaying the loan and have no credential to improve their employment prospects. Another concern is that student loans, like mortgages, can be sold to other third-parties for servicing and collections. This can make tracking and consolidating loans confusing and difficult.

The most extensive data available on default rates is the three-year cohort default rate (CDR) for federal fiscal 2009 as reported by the U.S. Department of Education. This measures how many undergraduate and graduate students have not made a single payment in at least 270 days on a federal loan issued in federal fiscal 2009. **Exhibit 14** shows Maryland institutions' CDR compared to the State average and the national average. Several HBIs have significantly higher default rates than the current national average of 13.4% and the State average of 10.7%. Overall, UMB and Towson have significantly lower CDRs, despite UMB having the third highest number of students in repayment. The University of Baltimore (UB) is in a similar position. This is likely due to the high number of students in professional programs at both UB and UMB. Since the total outstanding federal debt includes loans in deferment due to

**Exhibit 14**
**Three-year Cohort Default Rate at Maryland's Public Four-year Institutions**
**Federal Fiscal 2009**



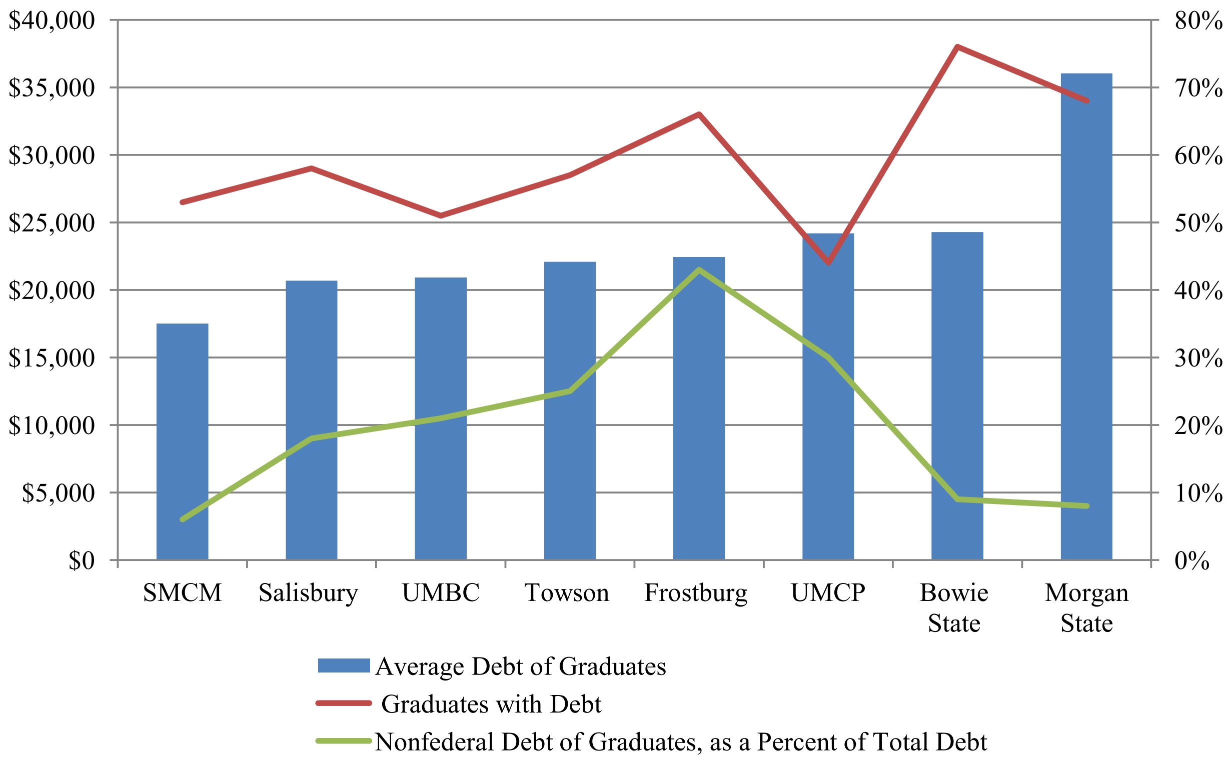

UB: University of Baltimore
UMB: University of Maryland, Baltimore
UMBC: University of Maryland Baltimore County
UMCP: University of Maryland, College Park
UMES: University of Maryland Eastern Shore
UMUC: University of Maryland University College

Source: U.S. Department of Education

many borrowers being current students, the actual default rate of student loan debtors in repayment is likely significantly higher than rates currently calculated for this cohort.

Student loan data on individual institutions is difficult to locate and verify. However, the following data is available on selected public and independent four-year Maryland institutions. As shown in **Exhibit 15**, only the University of Maryland, College Park (UMCP) has more than 50% of students graduating debt free. It is not clear why students with less than $30,000 of average debt would be using nonfederal loans given the $31,000 limit in Stafford loans show in Exhibit 13. Overall, MSU has the highest average student loan debt out of the public four-year institutions from the available data.

**Exhibit 15**
**Undergraduate Debt at Selected Public Maryland Institutions**
**Total Debt and Percent of Loans from Nonfederal Sources**
**Fiscal 2011**



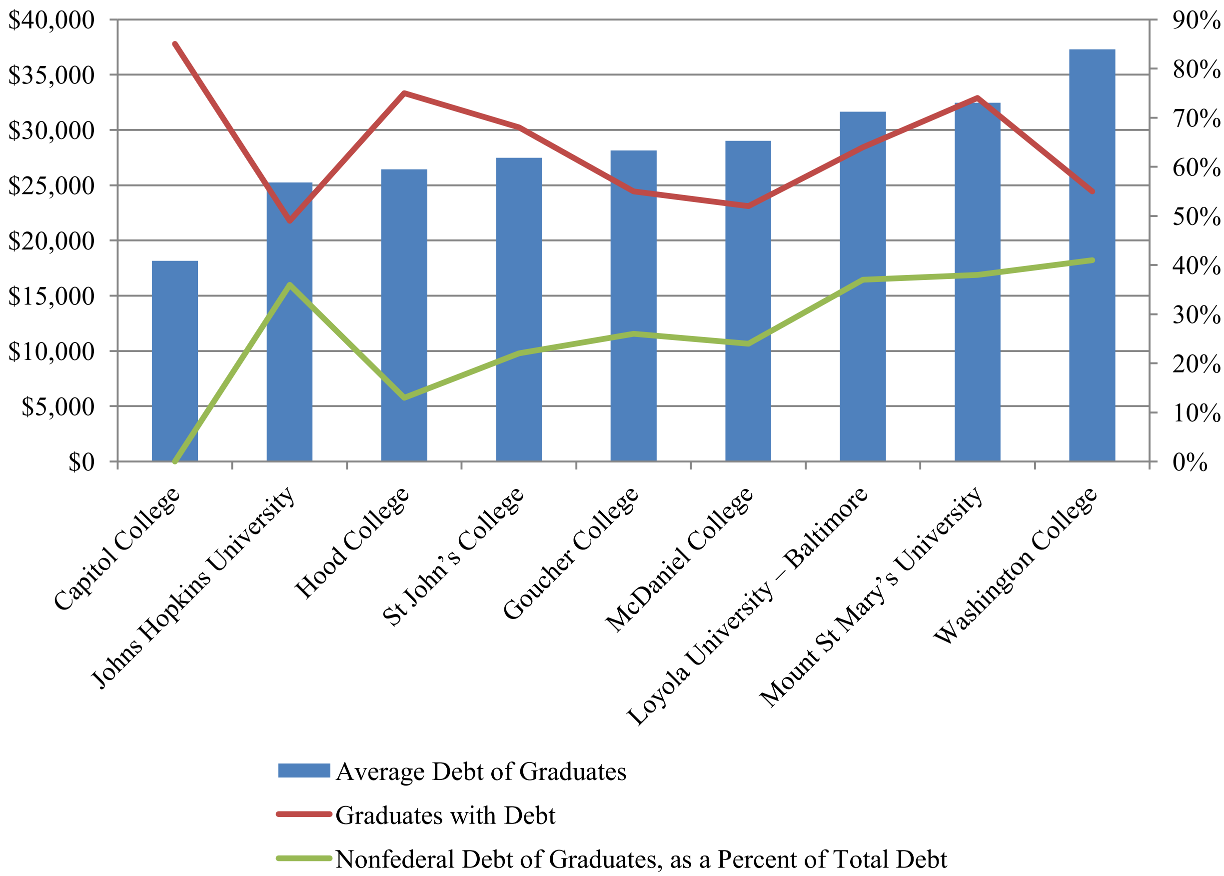

SMCM: St. Mary's College of Maryland
UMBC: University of Maryland Baltimore County
UMCP: University of Maryland, College Park

Note: This exhibit excludes Coppin State University; the University of Maryland, Baltimore; the University of Baltimore; the University of Maryland University College; and the University of Maryland Eastern Shore due to incomplete data.

Source: The Institute for College Access and Success, College InSight

**Exhibit 16** shows the same graph for selected independent institutions. In this exhibit, the relation between total debt and private loans is clearer, with several institutions using federal loans less than others, such as Mount St. Mary's University and Washington College. Data for Capitol College indicates that no students used private loans. Overall, it appears that the higher the average debt, the higher the percentage of nonfederal debt.

**Exhibit 16**
## Undergraduate Debt at Selected Independent Maryland Institutions
**Total Debt and Percent of Loans from Nonfederal Sources**
**Fiscal 2011**




Source: The Institute for College Access and Success, College InSight

Relatively high interest rates and strict bankruptcy laws counter risks to student loan lenders. Discharging student loans in bankruptcy is generally very difficult, as the borrower must pass a strict legal doctrine called the Brunner Test. This has applied to federal loans since 1978 and to private loans since 2005. Borrowers must show "undue hardship" in repaying the loan, which is generally difficult to establish in court. Additionally, federal loans in collections can be garnished from the Internal Revenue Service tax refunds and Social Security benefits, so unpaid student loans may follow a person indefinitely if they are not paid off in full.

### Reducing Student Loan Debt Burden

In December 2004 the USM Board of Regents approved a set of recommendations put forth in the *USM Financial Aid Task Force Final Report* to reduce the amount of student debt. Among the recommendations was establishing a goal to decrease the debt burden for all undergraduate students, particularly those with the highest need, by increasing institutional grants. Furthermore, target maximum "acceptable" loan debt burden for students with the highest need should be at least 25% less than the institutional average debt burden for undergraduate students. According to USM's *Financial Aid Report FY 2007 – FY 2011* institutions have achieved this goal with the fall 2009 Pell student on average having 37.5% less debt than their non-Pell counterparts and the fall 2010 Pell students having 33.8% less debt.

Several Maryland institutions are implementing initiatives to reduce debt burdens and increase affordability. For example, UMCP created the Maryland Pathways program in academic year 2004-2005. This program assists students from low-income families by increasing the grant component of their financial aid package while reducing debt. The program consists of:

- **Pathways I (Work Grant Program)** – provides a debt-free education for in-state students with an EFC of $0, covering the cost of attending UMCP for four years through a combination of federal, State, and institutional funding.

- **Pathways II (Pell Grant Supplemental Program)** – provides scholarship support to low-income students who because of earnings from work lose Pell grant eligibility.

- **Pathways III (Senior Debt Cap Program)** – caps the accumulated debt for seniors who have accumulated $15,000 or more in need-based federal loans. Qualified students are awarded a university grant to cover the remaining financial needs in the fourth year.

UMUC recently implemented more generous drop dates for its courses to allow students to withdraw from school later in the semester without incurring financial penalties.

## Policy Issues and Recommendations

Most students rely on financial aid to afford postsecondary education. While Maryland has displayed tremendous support for higher education institutions generally and holding tuition at public four-year institutions down, the amount of financial aid has not kept pace with the number of students filing for assistance at MHEC or through individual institutions. Increasingly, students are turning to loans to fulfill financial need that is not met by grants and scholarships. In recent years, the General Assembly has adopted several programs to assist students.

In 2008, the General Assembly established the Task Force to Study How to Improve Financial Literacy in the State, which issued findings in 2010. In turn, the Maryland State Department of Education (MSDE) produced the Maryland State Curriculum for Personal Financial Literacy Education which consists of six standards to be taught to all students. MSDE's Standard 4 establishes that by grade 12, high school students will be able to "evaluate how to use debt beneficially" and to "use numeracy skills to calculate the cost of borrowing."

Maryland also has several loan assistance repayment programs (LARP) for lawyers, physicians, and other public service professionals who work in underserved areas of the State. New programs were enacted in 2012 for teachers and health professionals in Health Enterprise Zones.

As the Maryland Longitudinal Data System (LDS) is implemented the available data and analysis will inform educators and policymakers to better understand the financial aspects of particular student groups and measure progress on financial aid indicators. In the near future, the State will be able to identify more precise tools for encouraging not only postsecondary education enrollment, but how to better meet the needs of students, particularly low- and middle-income students. The following recommendations are intended to encourage discussion of the policy issues raised in this paper.

- **MHEC should coordinate with MSDE to ensure that the financial literacy standards are effective for college-bound students.**

- **MHEC should develop performance accountability metrics for institutional aid, student loan debt and/or default rates that will be tracked by institution and could be incorporated into performance-based funding.**

- **The State and institutions should consider incorporating progression metrics into scholarship renewal eligibility for State and institutional aid. For example, require full-time students to take 15 credits, instead of the current 12 credits to qualify for aid. This will increase on-time graduation and get the students (and the State) more "bang for the buck."**

- **Institutions should establish best practices for reducing student loan burdens and set benchmarks for average loan debt and debt for lower-income students.**

- **The State and institutions should continue to prioritize the moderating of tuition increases.**

- **MHEC should continue its analysis of the impact of State financial aid awards on student progression and completion and submit its findings and recommendations to the budget committees by August 1, 2013.**