INFORMATION ITEM

Staff Report on Undergradate Student Debt Upon Graduation
(REVISED January 30, 2006)

Federal student loans now represent almost half of the student aid received by undergraduate and graduate students to finance higher education. Yet as a recent SREB report illustrates, loans do not reduce the costs. Loans simply delay the costs, "allowing families and students to spread the cost of college over several years – which ends up increasing costs by adding interest." Furthermore, the SREB report concluded that even loans do not close the financial gap between the aid offered by institutions to students and the amount students' families can contribute.[1]

The following report captures national trends in student borrowing (pages 1-3) and provides information reported by South Carolina public institutions on estimated average undergraduate debt upon graduation (pages 3-4).

In the annual *Trends in Student Aid* report produced by The College Board, $129 billion in financial aid was distributed to undergraduate and graduate students in the form of grants, work-study, federal loans, and federal tax credits, and deductions. Of that amount, $63 billion were in federal loans including both those loans guaranteed by the federal government but financed privately under the Federal Family Education Loan Program (FFELP) and those loans borrowed directly from the government through the Ford Direct Student Loan Program (FDSLP). According to a U.S. Department of Education study, it was estimated that students also borrowed almost $14 billion from nonfederal sources.[2]

Also reported in the U.S. Department of Education study, students who had borrowed money at any time during their undergraduate years between 1992-93 and 1999-2000 graduates increased 16 percent. Among those who borrowed, the average cumulative amount borrowed (adjusted for inflation) rose from $12,100 to $19,300 (+$7,200). The study also found that the majority of 1992-93 graduates were borrowing less than $10,000. However, by 1999-2000 the majority of graduates borrowed $25,000 or more.[3]

The 1992 Reauthorization of the Higher Education Act increased loan limits for the Stafford loan program, expanded eligibility for need-based aid, and introduced unsubsidized Stafford loans for undergraduates regardless of their financial need.[3] As a note, the United States Congress is considering changes to the federal student loan program as a part of the 2006 Reauthorization of the Higher Education Act.

Federal Student Loan Program

- *Stafford Loan Subsidized* – awarded based on financial need. No interest is charged to the borrower while in school, during the grace period or during periods of deferment. The federal government "subsidizes" the interest during these periods.

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[1] *Creating College Opportunity for All: Prepared Students and Affordable Colleges*, SREB, 2005.
[2] *Trends in College Pricing 2005*, College Board, October 2005.
[3] *Debt Burden: A Comparison of 1992-93 and 1999-2000 Bachelor's Degree Recipients a Year After Graduating*

- *Stafford Loan Unsubsidized* – not awarded based on need. Interest accrues from the date of disbursement until final payment. The borrower can choose to pay the interest monthly or quarterly while in school and during the grace period or can have the interest capitalized and added to the principal amount of the loan.
- *Parent Loans for Undergraduate Students (PLUS)* – designed to help parents pay the cost of their dependent child's education expenses. Parents can borrow money to cover any costs not already covered by the student's financial aid package, up to the full cost of attendance. PLUS loans are long-term, low interest, variable rate loans available to parents of dependent undergraduate students who may not qualify for other types of financial assistance.
- *Perkins* – awarded to undergraduate and graduate students with exceptional financial need. This is a campus-based loan program, with the school acting as the lender using a limited pool of funds provided by the federal government.

The Stafford Loan Process

- A student completes the Free Application for Federal Student Aid (FAFSA).
- The institution considers the student for the maximum Stafford subsidized loan amount then the maximum unsubsidized amount.
- Financial aid office sends the student's loan application to a lender.
- A promissory note is sent to the student.
- First-time borrowers must complete an online entrance loan counseling quiz.
- The student can change the loan amount at any time by contacting the institution or the lender.
- Note: Depending on the lender, students may incur additional fees. The Federal government charges a three percent origination fee which is deducted from the loan proceeds. Some lenders waive this fee for borrowers. Lenders also reserve the right to charge a one percent guarantee fee.

Stafford Loan Yearly Maximum Amounts

Year	**Dependent Student**	**Independent Student**
First	$2,265	$6,265 (only $2,625 subsidized)
Second	$3,500	$7,500 (only $3,500 subsidized)
Third	$5,500	$10,500 (only $5,000 subsidized)
Fourth	$5,500	$10,500 (only $5,000 subsidized)
Graduate	$8,500	$18,500 (only $2,625 subsidized)

Maximum Total Debt from Stafford Loan

$23,000 – dependent undergraduate student
$46,000 – independent undergraduate student and certain dependent undergraduates if parent is denied a PLUS loan (only $23,000 subsidized)
$138,500 – graduate or professional student (only $65,000 subsidized)

Loan Repayment

Typically, borrowers have a six-month grace period between graduation and the beginning of the loan repayment. Most lenders require borrowers to repay the loans in 10 years on various types of repayment schedules such as an income-sensitive plan or graduated plan. Some lenders allow students with Stafford loans exceeding $30,000 to repay in an extended repayment plan not to exceed 20 years.

While in school, the grace period, or a deferment period, the interest rate is 4.7 percent (as of July 1, 2005). Once students begin repayment, the rate increases to 5.3 percent. The federal government sets the interest rate each July. Many students consolidate their loans to secure fixed rates, which is typically the weighted average of the interest rates on the loans being consolidated (capped at 8.25%). Consolidation also extends the repayment period between 12-30 years.

Some lenders have special repayment discounts such as:

- A one percent reduction of outstanding principal reduction if the first 12 payments are made on time; this can be repeated twice (Bank of America)
- By having the monthly payment automatically drafter from the bank account, can reduce rate by 0.25% (SC Student Loan Corporation)
- Graduation Incentive Program - $250 for an Associate's, $500 for a Bachelor's, $750 for a graduate or professional degree (SC Student Loan Corporation)

Borrowers Who Drop Out

A 2005 report by the National Center for Public Policy and Higher Education found that among the three million students who started postsecondary education in 1995-96, more than one-fifth (23%) of those who borrowed did not complete their programs and were not enrolled in 2001.[4]

The study also found that of the students who first enrolled in a four-year public institution during 1995-96 with expectations of obtaining a bachelor's degree, 19 percent had dropped out six years later. Of those borrowers who enrolled in a two-year public institution, 24 percent had dropped out.

Credit Card Debt

Nellie Mae has studied the credit card use of undergraduate students since 1998. The 2004 study found the average outstanding balance on undergraduate credit cards was $2,169. The study also found that 56 percent of final year students carry four or more credit cards. The most common reported usage of the cards was for school supplies (such as paper, notebooks, writing utensils, lab supplies, calculators, etc.) and textbooks. Just less than 24 percent charge a portion of their tuition on credit cards. The study found 44 percent of undergraduate students said they make more than the minimum payment but generally carry forward a balance.[5]

South Carolina Average Undergraduate Debt Upon Graduation

In January 2006, a survey was sent to the finance officers of each institution to obtain an estimated average loan debt for undergraduate students who graduate with loan debt. They were asked to report an estimate for federal and private loans, where available.

[4] *Borrowers Who Drop Out: A Neglected Aspect of the College Student Loan Trend*, The National Center for Public Policy and Higher Education, May 2005.
[5] *Undergraduate Students and Credit Cards in 2004: An Analysis of Usage Rates and Trends*, Nellie Mae, May 2005.

The results of the survey are listed below. Twenty-three institutions reported the estimated average student federal and private loan amount upon graduation. Five technical colleges, as noted on the chart, do not participate in federal or private student loan programs.

Estimated Average Loan Debt for Undergraduate Students Graduating with Loan Debt[1]

As Reported by South Carolina Public Colleges and Universities

Note: Institutional reported averages include federal loans only unless otherwise specified.

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Institution	Average Debt Amount[2]	Graduation Period	Additional Information
Clemson	$17,882	2005	
USC-Columbia	$18,699	2004-05	* Includes both Federal & private loan programs.
Medical University of SC[3]			
The Citadel	$13,356	2004-05	
Coastal Carolina	$22,421	December 2005	
College of Charleston	$17,036	2004-05	
Francis Marion	$24,940	December 2005	
Lander	$12,277	Summer 2005	
SC State	$23,580	2005	
USC-Aiken	$18,326	2004-05	
USC-Beaufort	**TBA**		
USC-Upstate	$18,979	May 2005	
Winthrop	$18,793	May 2005	
USC-Lancaster	**NR**		
USC-Salkehatchie	**NR**		
USC-Sumter	**NR**		
USC-Union	**NR**		
Aiken	**N/A**	**N/A**	* Institution does not participate in federal or private loan programs.
Central Carolina	$4,221	2004-05	
Denmark	**NR**		
Florence-Darlington	$3,057	2004-05	
Greenville	$4,238	2004-05	* Institution does not participate in private loan programs.
Horry-Georgetown	$4,238	2004-05	
Midlands	$5,674		
Northeastern	**N/A**	**N/A**	* Institution does not process student loans.
Orangeburg-Calhoun	$4,688	2004-05	
Piedmont	$5,954	2004-05	
Spartanburg	$4,633	2004-05	
Tech. Coll. of Lowcountry	**NR**		
Tri-County	**N/A**		
Trident	$5,198		
Williamsburg	**N/A**	**N/A**	* Institution does not participate in federal or private loan programs.
York	**N/A**	**N/A**	* Institution does not participate in federal loan programs; only has one private loan in the amount of $1,000.

NR - Institutions had reported no data at time of the mail out.

TBA - Institutions requested to add data prior to the Commission meeting.

[1] Estimated averages are for in-state and out-of-state students.

[2] Estimated averages were calculated by the total volume of loan indebtedness for the graduating class and the total number of graduating borrowers.

[3] Estimated average debt amount reflects 148 undergraduate students in two programs with no first-time entering freshmen; and The undegraduate programs at MUSC are "lock-step" programs with most students loans including off-campus living expenses, making the loan amounts considerably higher than at other institutions. MUSC's data are shown below:

	Average Debt Amount[2]	Graduation Period	Additional Information
Medical University of SC	$34,783	2004-05	* Average is for federal & private loan programs.