

# Higher Education Access and Affordability in Virginia Amid the 2008 Credit Crisis: A cursory Look

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# Higher Education Access and Affordability in Virginia Amid the 2008 Credit Crisis: A Cursory Look

- ✓ National Scene
- ✓ Virginia in General
- ✓ The Nature of Financial Aid
- ✓ Specific 2008-09 Issues
- ✓ Challenges for 2009-10 and Beyond
- ✓ Food for Thought---Need not Merit

- ☒ Controlling Costs
- ☒ Advanced Placement, Dual Enrollment, Accelerated Programs, Prepaid Plans
- ☒ Institutionally-Based Low Income Access Initiatives

# Affordability Nationwide

Overall, the *Measuring Up* indicators show that access to college is fairly flat in the United States, with mostly small improvements in some states and declines in others.

Patrick M. Callan, The National Center for Public Policy and Higher Education in *Measuring Up 2008: The National Report Card on Higher Education*, December 2008

# Affordability Nationwide

**Improvements in State Investment**---state investment in need-based financial aid as a percentage of the federal investment

- » Nevada 2% to 48%
- » North Carolina 3% to 70%
- » **Virginia 6% to 50%**
- » Montana 1% to 9%
- » Utah 1% to 8%
- » Washington 24% to 108%
- » Texas 7% to 32%
- » Delaware 13% to 49%
- » Missouri 8% to 29%
- » West Virginia 12% to 43%

Source: *Measuring Up 2008*

# Affordability

State Tax Funds Appropriated for Higher Ed  
Operating Expenses Per \$1,000 Personal Income (FY07)

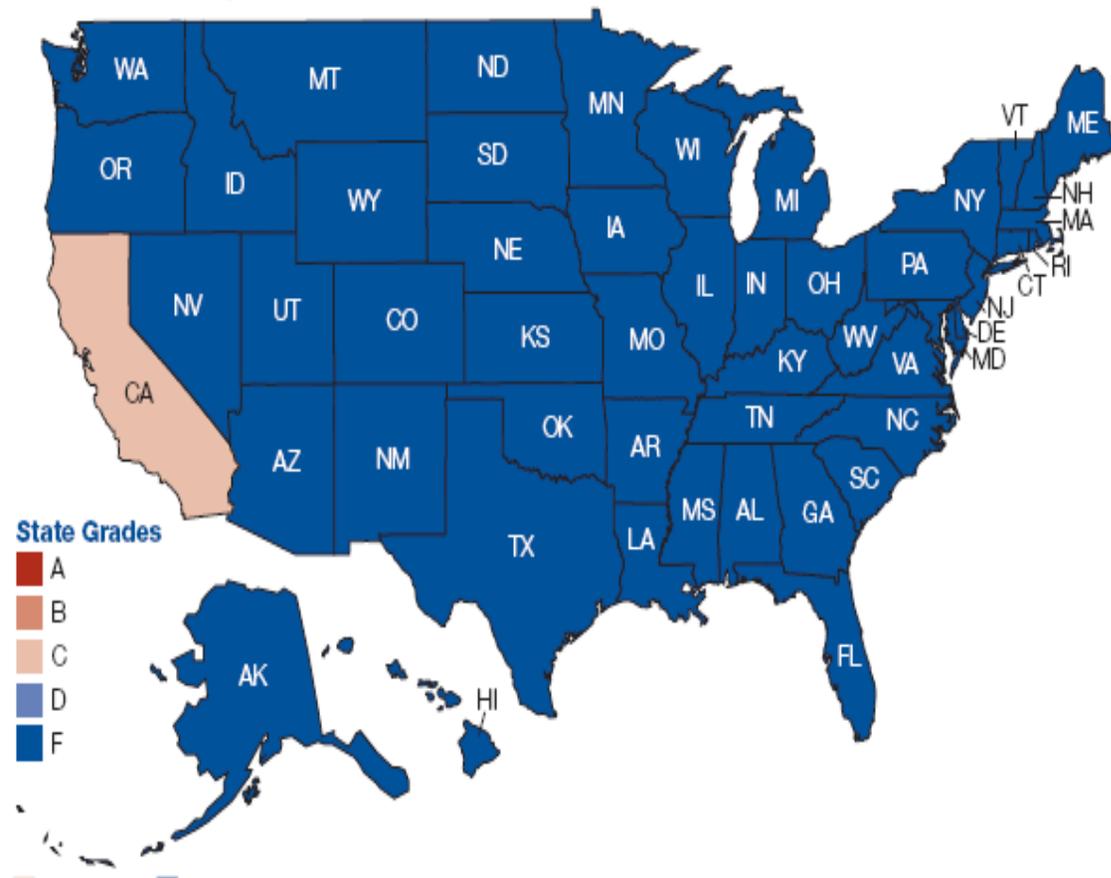
Virginia	\$6.53
National	\$7.08
North Carolina	\$12.52

Virginia Change from FY1980 to FY2007	(\$3.94)
National Change from FY1980 to FY2007	(\$3.39)

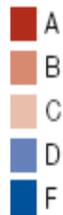
Source: *Postsecondary Education Opportunity*, January 2007

# On Affordability, *Measuring Up 2008* Gives 49 “Fs” and one “C”

## Affordability



### State Grades



### Affordability

Family Ability to Pay  
At Community Colleges  
At Public 4-Year Colleges  
At Private 4-Year Colleges

Strategies for Affordability  
Need-Based Financial Aid  
Low-Priced Colleges

Reliance on Loans  
Low Student Debt

# Affordability Nationwide

**Table 1: The burden of paying for college has increased for all families, but has increased more for middle- and low-income families.**

<b>Net College Costs* as a Percent of Median Family Income</b>			
<b>At public four-year colleges and universities</b>	<b>1999-00</b>	<b>2007-08</b>	<b>% pts increased</b>
Lowest income quintile	39%	55%	16%
Lower-middle income quintile	23%	33%	10%
Middle income quintile	18%	25%	7%
Upper-middle income quintile	12%	16%	4%
Highest income quintile	7%	9%	3%
<b>At public two-year colleges</b>			
Lowest income quintile	40%	49%	9%
Lower-middle income quintile	22%	29%	7%
Middle income quintile	15%	20%	5%
Upper-middle income quintile	10%	13%	3%
Highest income quintile	6%	7%	2%

\* Net college costs equal tuition, room, and board, minus financial aid. The numbers may not add exactly due to rounding. Source: *Measuring Up 2008*.

# Affordability in Virginia

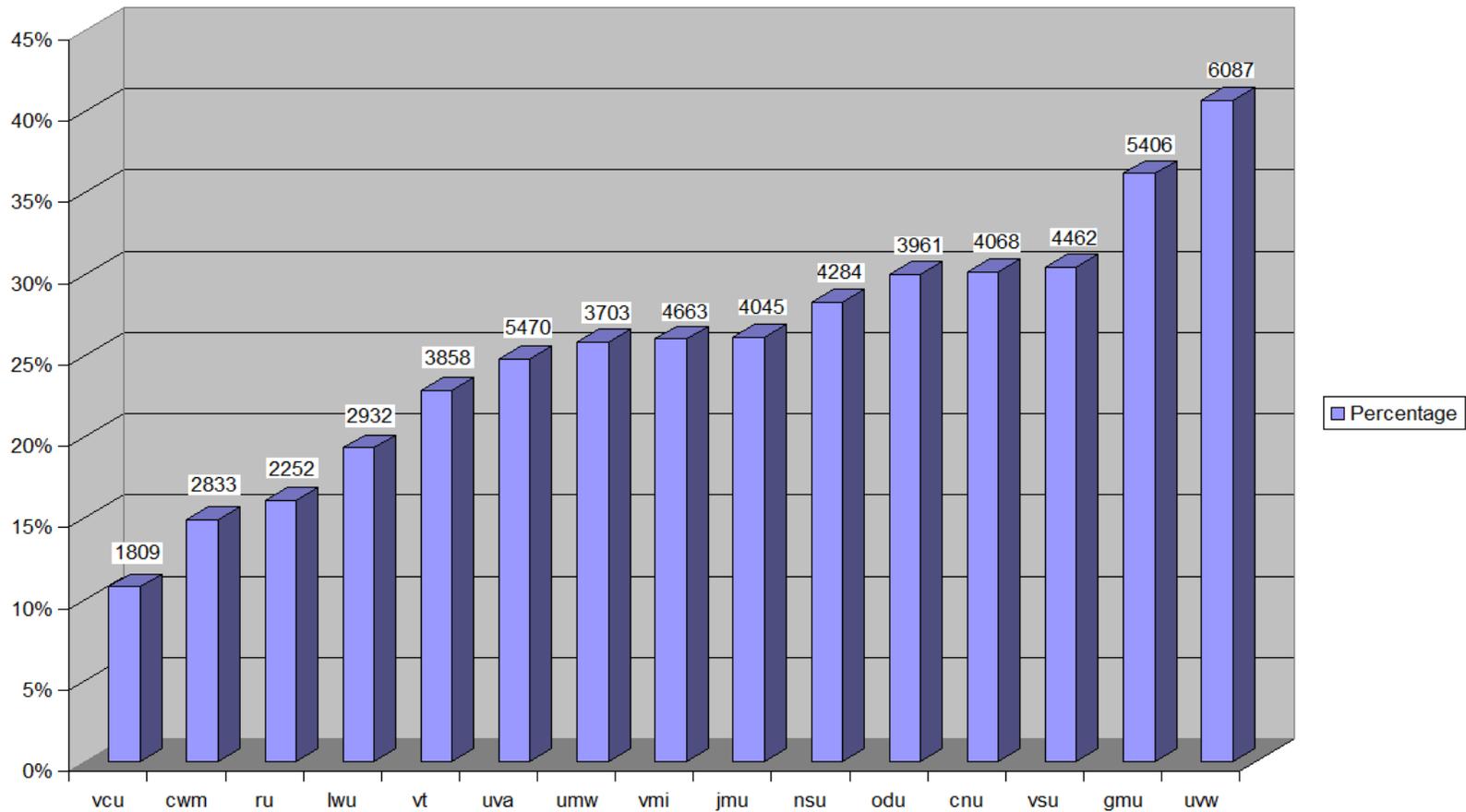
<b>A CLOSER LOOK AT FAMILY ABILITY TO PAY</b>	Median Family Income	Community Colleges		Public 4-Year colleges/universities		Private Non-Profit 4-Year colleges/universities	
		Net college cost*	Percent of income needed to pay net college cost	Net college cost*	Percent of income needed to pay net college cost	Net college cost*	Percent of income needed to pay net college cost
Income groups used to calculate 2008 family ability to pay							
20% of the population with the lowest income	\$13,080	\$6,096	47	\$8,326	64	\$18,169	139
20% of the population with lower-middle income	\$32,399	\$8,115	25	\$10,513	32	\$18,209	56
20% of the population with middle income	\$53,127	\$8,939	17	\$12,355	23	\$19,581	37
20% of the population with upper-middle income	\$82,407	\$9,154	11	\$12,521	15	\$20,510	25
20% of the population with the highest income	\$150,255	\$9,236	6	\$12,826	9	\$22,095	15
40% of the population with the lowest income	\$23,142	\$7,075	31	\$9,477	41	\$18,188	79

\*Net college cost equals tuition, room, and board, minus financial aid.

Source: *Measuring Up 2008*

# Affordability in Virginia

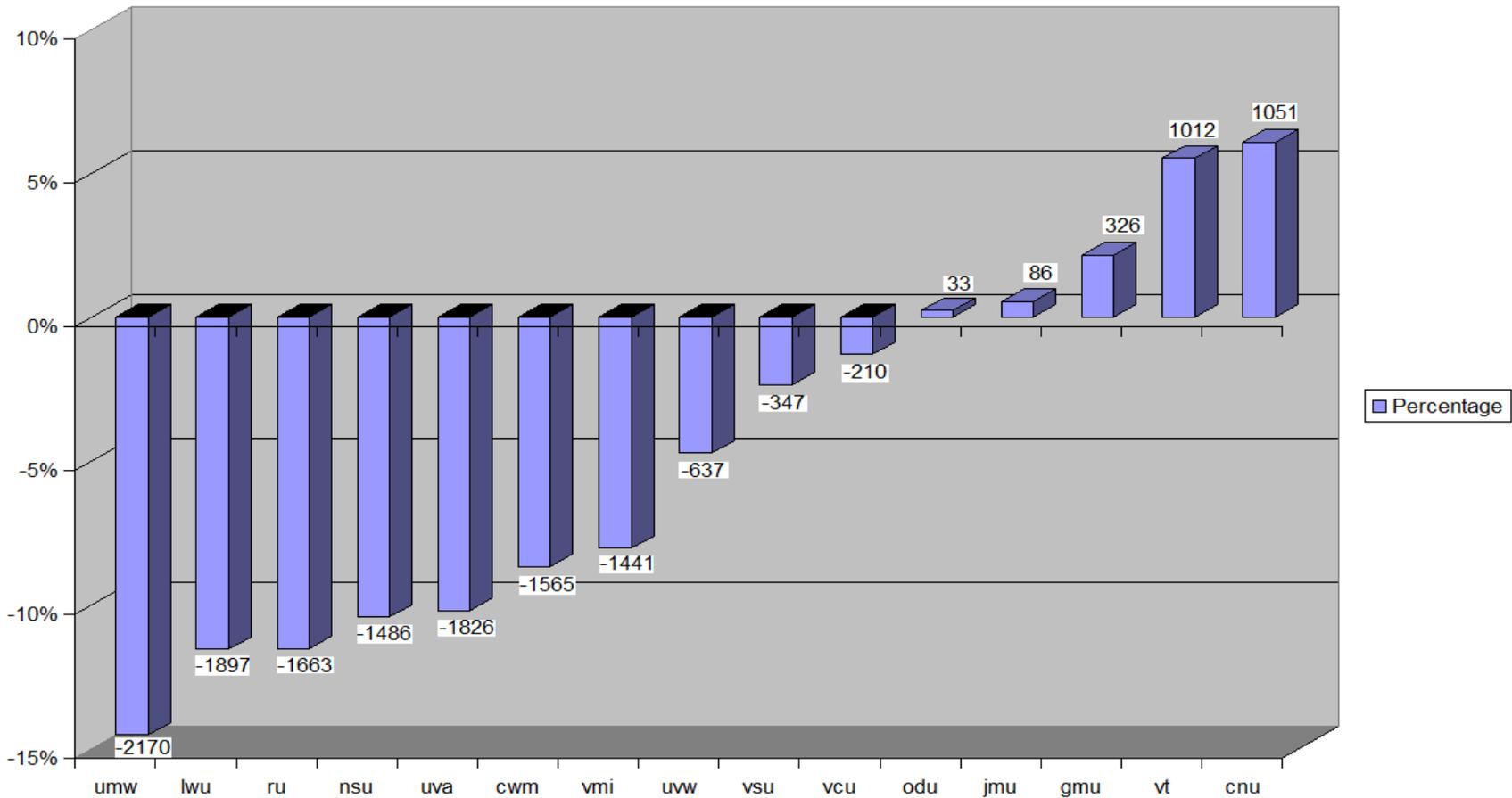
Shortfall between Cost of Attendance and Family and Financial Aid Resources for Selected VA Institutions - Family Income \$0 - \$9,999 (2006-2007)



Source: SCHEV

# Affordability in Virginia

Shortfall between Cost of Attendance and Family and Financial Aid Resources for Selected VA Institutions - Family Income \$60,000 - \$69,999 (2006-2007)



Source: SCHEV

# Affordability and Credit Crisis

- Financial Aid Cycle not complete
- Enrollment Cycle not complete (VCCCS)
- Financial Aid Cycle on an academic year basis
- Severity of crisis did not occur until late into the cycle
- No observable major impact YET

# Affordability and Credit Crisis

## The Nature of Financial Aid

- Institutions assemble a “Package” of aid
  - Some is entitlement/semi-entitlement...no spending limits
  - Some is discretionary...with spending limits

Pell Grant and Stafford Loans have no spending limits

State General Fund allocations have spending limits

# Affordability and Credit Crisis

## The Nature of Financial Aid

- The credit crisis has created issues with government Stafford Student Loans (entitlements) due to capital paucity and cash flow issues as well as with private, non-government loans
- Stafford Student Loans are divided into two types depending on the capital source...private or federal sources
- Colleges and universities choose which type of capital source to use for government student loans...almost always an exclusive choice, one or the other, not both

# Affordability and Credit Crisis

## The Nature of Financial Aid

- Institutions relying on federal capital for Stafford Loans carry the moniker “Direct Loan (DL) Institutions” and have experienced no adverse impact
- Institutions relying on private capital for Stafford Loans carry the moniker “Federal Family Education Loan Program (FFELP) Institutions, a limited number of which have experienced adverse impact

# Adverse Impact for FFELP Institutions

- The sources of private capital, such as banks, stopped participation in the program...students had to find a new lender
- Banks 'red-lined' institutions with low volume
- Banks experienced cash flow issues that delay disbursements to schools by as much as 45 days
- Banks altered their processing routine resulting in confusion and delays

# Federal Help for FFELP Banks/Lenders

- Ramped up capacity with DL Stafford Loans for schools that earlier chose FFELP and now decide to convert to DL
- Ensuring Continued Access to Student Loans Act of 2008 signed into law 5/7/2008
  - Authorized U S Department of Education to purchase FFELP Stafford Loans for 2008-09
  - Initiative took time to implement
  - Even with this some lenders still needed initial capital to make the loan
  - Recently extended to 2009-10

# Nature of Non-Government, Private Loans

- Home equity/insurance borrowing not included, schools generally have no way of tracking these
- Private loans a growing market over the past ten years
- Credit-based commercial products for educational use
- Tiers of interest rates based on FICO score
- Heavily marketed by lenders
- Two types
  - Certified---school has to certify to lender
  - Direct-to-Consumer---no school involvement

# Adverse Impact on Non-Government, Private Loans

- Capital drying up
- Lenders stopping or restricting participation as with FFELP
- Higher credit scores required
- Interest rate tiers increased
- Higher denial rates

# Loan Situation Impact in Virginia

- No observable major impact yet
- No impact on DL institutions
- Not all FFELP institutions were adversely impacted...it depended on the status of the lenders their students chose
- One institution noted a negative impact on out-of-state enrollment due to private loan issues

# Affordability/Financial Aid Situation in Virginia, December 2008

- Apparent marginal increase of financial aid applications from 2007-08 to 2008-09
- More students with need applying for aid
- Increase in individual financial need
- No greater than usual financial problems displayed by families on tuition payments (bills for next term sent late December or early January...wait and see)
- Schools have lower levels of financial aid reserves than usual
- In general, no wide-spread distress, yet

# Affordability Horizon in Virginia 2009 and Beyond

- Changes to benefit foster children and homeless children coming in federal system beginning 2009-10 causing financial need to rise
- The current recession will further exacerbate the rise in financial need
- Demographics in Virginia show continued growth in post high school educational enrollments
- Major structural changes in the federal student aid design may force re-structuring of Virginia's student financial aid
- Overall demand for financial resources, at both the government and family level, will outstrip availability
- Virginia, as part of the United States of America, may continue to fall behind in the education of its citizenry as compared to other developed countries without increased state and national support for need-based financial aid

# Affordability...Food for Thought

- Post high school educational attainment is an investment in the future but there is no immediate return...but the investment yields an increased tax base, better individual health & happiness, more charitable giving...
- Virginia should be more strategic with student financial aid by targeting funds to need
- Student financial aid should be increased and any increases should be restricted to need-based student financial aid

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Questions?

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