AFFORDABILITY IN NC'S COLLEGES & UNIVERSITIES:

Policy Solutions to Minimize Student Debt & Maximize Repayment

EXECUTIVE SUMMARY

As North Carolina considers a postsecondary attainment goal, it is critical to include affordability and student debt as part of the discussion. In order for students to successfully transition from higher education to the workforce, they must navigate several hurdles: paying for college, graduating from college, and obtaining work that is commensurate with their education and skills.

This policy brief examines the questions: how much does postsecondary education in North Carolina cost and how do students pay for it? The brief first examines the current landscape of affordability and financial aid in North Carolina's postsecondary institutions—from community colleges to four-year public and private universities. Then, it discusses the relationship between affordability, debt, and postsecondary attainment. Lastly, it suggests several policy reforms to address the biggest challenges to current and prospective college students.

There is strong evidence that North Carolina is serving most of its students well. Postsecondary education in the state is more affordable than elsewhere in the country and most students have little trouble finding the resources needed to pay for college in the forms of federal, state, and institutional financial aid. However, there is a subset of institutions and students who struggle. In particular, students who fail to complete their education, either because of financial or academic difficulties, often default on their student loans.

As North Carolina sets its attainment goals for postsecondary education, successful completion of postsecondary credentials must be paramount.

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POLICY BRIEF

Introduction

Across the country, the cost of a university education has been climbing steadily for the last three decades. Many students now rely on student loans—both federal and private—to help pay for their annual tuition, fees, and expenses related to attending a postsecondary institution. In 2016 alone, the federal government delivered $125.7 billion in student aid to 13.2 million students.

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North Carolina's outlook is rosier. Many colleges and universities are more affordable to broad swaths of the population. Most students borrow responsibly and make adequate progress toward completion.

North Carolina's challenge, then, is to address the isolated problems that do exist: relatively low graduation rates and the concomitant high default rates at a handful of institutions. Closing the gap so that these institutions can match their performance to the rest of the state is essential to creating an achievable postsecondary attainment goal.

The Current Landscape of Affordability and Financial Aid in North Carolina

1. Tuition, Financial Aid, and Net Prices in North Carolina

Funding for higher education comes from a variety of sources, including state appropriations, federal appropriations, private grants and donations, sales and services (from auxiliaries like housing and dining), and tuition and fee revenues. According to the State Higher Education Executive Officers Association, in 2017, public higher education revenues primarily came from state tax and non-tax appropriations ($83.9 billion), local appropriations in 29 states ($10.6 billion), and tuition revenues ($72.3 billion). Private institutions rely much more heavily on private funding and tuition and fees.[1]

North Carolina colleges and universities are significantly more affordable than their national counterparts. Table 1 provides a snapshot of North Carolina affordability data. Both in terms of published tuition and net prices, North Carolina's four-year public and private nonprofit institutions cost less than the nationwide average. From 2012 to 2017, North Carolina's state government increased its per-student educational appropriation to public colleges from $9,316 to $9,959 (in 2017 constant dollars)—an increase of 6.9 percent. The U.S. average state appropriation grew from $6,525 in 2012 to $7,642 in 2017 (in 2017 constant dollars).[2] In those same years, North Carolina's net tuition revenue per student (in constant 2017 dollars) grew from $4,178 to $5,306—an increase of 27 percent.

North Carolina also supports public university students through the UNC Need-Based

TABLE 1: **TUITION, FINANCIAL AID & NET PRICES IN NC**	NC Public 2-year	US Avg. Public 2-year	NC Public 4-year	US Avg. Public 4-year	NC Private, nonprofit 4-year	US Avg. Private, nonprofit 4-year
Published Tuition and Fees	$2,582	$3,390	$6,843	$7,842	$15,685	$26,369
% of students receiving Pell Grants	61%	55%	45%	43%	46%	42%
Avg. Pell Grant Award	$4,651	$4,373	$4,570	$4,429	$4,327	$4,399
% of students awarded state/local grant aid	21%	36%	44%	38%	40%	29%
Avg. amount of state/local grant aid	$1,439	$1,807	$3,097	$3,262	$4,386	$3,735
% of students awarded institutional grant aid	12%	17%	55%	45%	76%	79%
Avg. amount of institutional grant aid	$1,165	$1,782	$4,153	$4,248	$12,633	$14,415
% of students receiving federal student loans	7%	21%	58%	49%	67%	60%
Avg. federal loan amount	$5,394	$4,553	$5,521	$5,296	$6,201	$5,913
Avg. Net Price for Students Awarded Grant or Scholarship Aid	$7,626	$7,496	$10,858	$12,350	$20,906	$22,217

Source: Integrated Postsecondary Education Data System, 2015-16

Grant. The North Carolina State Education Assistance Authority explains that the grant is targeted to North Carolina's neediest students. It is intended to "serve North Carolinians who would find it difficult—or impossible—to gain access to higher education in [the] University of North Carolina system, even with federal and institutional resources directed toward their costs."[3] Eligibility for the program is dependent on the cost to attend a given institution and a student's income and assets as well as how much money a student will receive in Pell grants and other scholarship sources. As shown in Table 1, 44 percent of all students attending schools in the UNC System received state or local grant aid in 2015-16.

North Carolina supports its community college students through the NC Community College Grant Program. The grant is available to all students who are North Carolina residents who take at least six hours per semester in a curriculum program and meet satisfactory academic progress requirements. However, because the program does not cover vocational or continuing education credits, only 21 percent of all NC Community College students receive the grant (as shown below).

North Carolina's community colleges have a lower sticker price than U.S. community colleges; however, the net price students pay after receiving grants and scholarships is slightly higher than the national average. This may be because North Carolina's state, local, and institutional aid for community college students lags behind the national average.

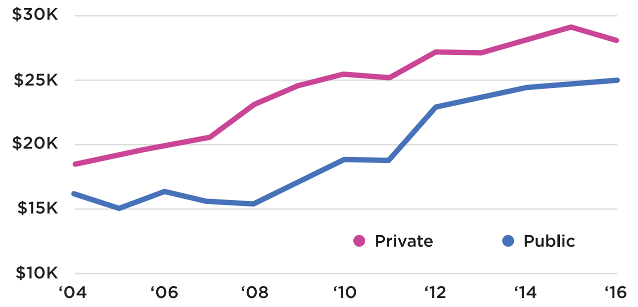
North Carolina also appropriates a small amount of money for need-based scholarships for students attending private institutions. As shown in Table 1, 40 percent of all students at private, nonprofit four-year institutions in North Carolina received state or local grant aid in 2015-16.

2. Average Debt among North Carolina Students

College financing expert Mark Kantrowitz recommends that a student's total college debt should not exceed his or her total annual income after graduation.[4] His advice has been repeated and affirmed so often that it is now the accepted conventional wisdom. And while his recommended figure varies significantly by university and degree attained, it is a useful rule of thumb for students to know. It also demonstrates that the average debt of North Carolina students who successfully complete their degrees can be considered affordable.

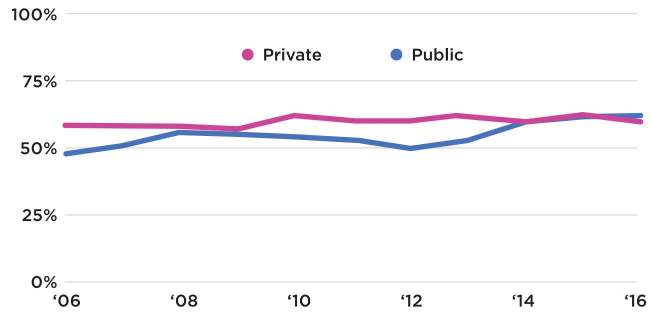
On average, North Carolina students have less debt than their national counterparts. In 2016, North Carolina ranked 42nd in the nation (where 50th is best) in average debt per bachelor's degree graduate at public and private nonprofit institutions at \$25,562.[5] In the same year, 58 percent of all bachelor's degree graduates left school with debt, 27th among all states.[6] At North Carolina's public universities, the average bachelor's degree graduate left school with \$24,810 in debt. At NC private schools, that figure was \$27,929. More than half of all in-state undergraduate students borrow nothing to attend North Carolina's colleges and universities.[7] Just 12.1 percent of all North Carolina undergraduates borrow more than \$26,500 cumulatively.[8]

FIG. 1: **AVERAGE DEBT OF BACHELOR'S GRADUATES, PUBLIC & PRIVATE NONPROFIT INSTITUTIONS IN NC**



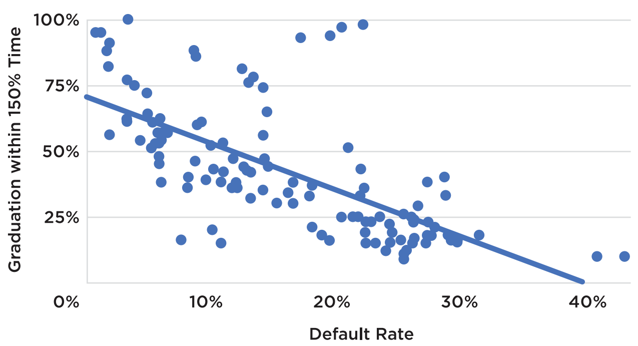
Source: The Institute for College Access & Success

FIG. 2: **PERCENT OF BACHELOR'S GRADUATES WITH DEBT, PUBLIC & PRIVATE NONPROFIT INSTITUTIONS IN NC**



Source: The Institute for College Access & Success

FIG. 3: **NON-COMPLETION IS CORRELATED WITH INCREASING DEFAULT RATES**



Source: The Institute for College Access & Success

As shown in Table 2, the undergraduate students most likely to borrow more than $26,500 are black students and female students. Dependency status (not shown in the table) also affects borrowing. Students who are independent from their parents have higher federal loan limits, borrow more, and receive more in federal grant aid. In 2015-16, a North Carolina student who was independent from his or her parent and who supported dependents borrowed, on average, $22,905 and received $11,176 in Pell Grants.

Historical debt data on the of subset of North Carolina students who successfully complete their degrees is somewhat encouraging compared to national averages. Over time, average debt of bachelor's graduates has increased slightly more than 50 percent in real dollars at North Carolina public and private nonprofit colleges from 2004 to 2016. When adjusted for inflation, the increase is roughly 20 percent.

The percent of bachelor's degree graduates leaving school with debt has also increased over time at North Carolina's public universities, from 48 percent in 2004 to 60 percent in 2016. Over the same time period, average tuition and fees in the UNC System increased 60 percent, from $4,303 to $6,905 in constant 2018 dollars.

At North Carolina's four-year private nonprofit institutions, the percent of students leaving school with debt has remained steady at roughly 60 percent every year since 2004.

TABLE 2: **CUMULATIVE AMOUNT BORROWED FOR UNDERGRADUATE EDUCATION BY GENDER AND RACE/ETHNICITY FOR NORTH CAROLINA STUDENTS WHO ATTEND COLLEGES AND UNIVERSITIES IN NORTH CAROLINA**

	0	$1-$5,999	$6,000-$13,499	$13,500-$26,499	>$26,500
Total	50.8%	12.8%	11.8%	12.5%	12.1%
Gender					
Male	56.4%	12.4%	10.6%	11.4%	9.2%
Female	46.8%	13.1%	12.6%	13.4%	14.2%
Race/Ethnicity					
White	61.1%	9.5%	10.2%	10.1%	9.1%
Black/African American	31.3%	17.8%	14.7%	17.2%	19.0%
Hispanic/Latino	51.8%	11.1%	11.3%	13.8%	12.0%
Asian	65.4%	13.8%	**	**	**
American Indian	**	**	**	**	**
Native Hawaiian/Pacific Islander	**	**	**	**	**
More than one race	35.4%	24.7%	16.3%	11.2%	12.3%

Source: The Institute for College Access & Success *** Reporting standards not met*

However, in 2016, the figure dropped to 51 percent. It is too soon to know whether this is the beginning of a new trend or simply an outlier. During the same time period, average tuition and fees at North Carolina's four-year private nonprofit institutions increased 32 percent, from $18,213 to $23,966 in constant 2018 dollars.

For both measures, average debt and percentage of students in debt, the rate of increase has slowed since 2012. This is encouraging. North Carolina's policies of keeping tuition low for everyone while focusing financial aid on students with the most demonstrated need have been successful in slowing the growth of student debt in public and private nonprofit universities. This has occurred at the same time that average graduation rates and the total number of graduates has increased. This is a significant success story for most of North Carolina's four-year public and private institutions.

More data are needed to determine whether North Carolina's two-year and proprietary schools are making the same progress.

3. Default and Repayment among North Carolina Students

As shown in Table 3, default rates among North Carolina students are worse than the national average. Default is measured and defined by the U.S. Department of Education as the percentage of a school's borrowers who enter repayment on certain Federal Family Education Loan Program or Federal Direct Loan Program loans during a particular federal fiscal year, October 1 to September 30, and default or meet other specified conditions prior to the end of the following fiscal year. Of the 120,111 federal student loan borrowers who left North Carolina institutions in 2014, more than 16,000 (14.5 percent) were in default three years later.

In North Carolina, the largest number of defaulted loans were originated by community college students. More than 10,000 of the students who defaulted after leaving school in 2014 attended community colleges. This may seem counterintuitive, since a smaller percentage of community college students borrow than do university students. But these data reflect national trends. Thirty-five percent of the borrowers who entered repayment in 2011 and defaulted on their federal loans within three years owed less than $5,000. Another 31 percent owed between $5,000 and $10,000. Only 4 percent owed more than $40,000.[9]

Students who enter into default are those who fail to earn enough, after leaving college, to repay their student loans. Thus, default rates are an important measure of educational outcomes because they demonstrate whether students are realizing significant positive returns on their personal educational investments.

TABLE 3: **FY2014 3-YEAR COHORT DEFAULT RATES IN THE UNITED STATES AND NORTH CAROLINA**

	US	NC
Public	**11.3%**	**14.5%**
Less than 2 yrs	13.8%	N/A
2-3 yrs	18.3%	22.3%
4+ yrs	7.5%	7.0%
Private	**7.4%**	**9.7%**
Less than 2 yrs	19.8%	N/A
2-3 yrs	17.6%	29.8%
4+ yrs	7.0%	9.3%
Proprietary	**15.5%**	**12.0%**
Less than 2 yrs	17.0%	13.9%
2-3 yrs	17.5%	9.5%
4+ yrs	14.6%	5.6%
Foreign	**3.5%**	**N/A**
Unclassified	**0.0%**	**N/A**
TOTAL	**11.5%**	**12.7%**

Source: U.S. Department of Education, Office of Federal Student Aid

Affordability, Debt, and Postsecondary Attainment

1. Affordability and Completion

Researchers have been examining the relationship between tuition prices and postsecondary enrollment for nearly 50 years. In that time, they have consistently found that increasing the price of higher education results in lower enrollment. In one recent study, researchers found that for every $1,000 increase in the price of higher education, 3 percent fewer students enroll.[10]

The relationship between tuition prices and completion is less clear. In many cases, the choices that students make in order to pay for college may decrease their chances of completion. Many students take fewer credits or work more in order to pay for college expenses. Both of these decisions can negatively impact completion.

Conversely, students who borrow more (instead of working or taking fewer hours) could be on the best track to graduation. A new report by the Center for American Progress shows that looking at average debt of student borrowers, absent the context of college completion, can be misleading. Higher levels of borrowing often correspond to higher attainment levels.[11]

Other research shows that keeping borrowing to a minimum offers little protection against default. Of all students who borrow less than $5,000 for college, 34 percent end up in default. The default rate steadily drops as borrowing increases.[12]

Data from the Association of Community College Trustees[13] confirm these findings using a snapshot of community college borrowers in Iowa. Nearly half of the defaulters in the Iowa sample borrowed less than $5,000. Most borrowed less than $10,000. In the sample, students who borrowed $15,000 to $19,000 were the least likely to default.

These figures reinforce Mark Kantrowitz's advice to students: borrowing in line with your expected salary is a wise financial decision. (The average starting salary for all UNC System students who graduated in 2015-16 and were employed in North Carolina was $26,442,[14] which is very well aligned with current student borrowing levels.)

2. Completion and Default

Nationally, data show that completion rates are strongly associated with subsequent student loan default. Borrowers most likely to default on their debt are those who drop out of college before earning a credential or degree. Dropouts are almost three times as likely to default on their loans as graduates are.[15]

Institutional-level data from North Carolina are consistent with this national trend. Institutions with high completion rates have lower institutional default rates. Institutions with low completion rates have higher default rates. This relationship holds across institutional types (public, private, and proprietary) and type of degree (four-year, two-year, or non-degree). Thus, improving completion rates is essential to reducing default rates. There are several strategies that North Carolina's colleges and universities can employ. They are discussed below in the policy recommendations section.

Discussion

North Carolina's public postsecondary institutions are largely affordable. Average annual tuition and fees in the UNC System in 2017-18 were $6,933 compared to an average of $8,182 for all public, four-year schools in the country. This is unsurprising, given that North Carolina's per-student funding for public higher education continues to rank in the top ten in the nation. The NC Promise Tuition Plan, which will reduce in-state tuition cost at some UNC campuses to $500 per semester beginning in fall 2018, will bring North Carolina's average down even further. North Carolina also provides needs-based grants to its students with the most demonstrated financial need. North Carolina's commitment to its in-state students remains strong.

As a consequence of North Carolina's affordable tuition prices at its public institutions, most students borrow well within recommended limits. And most graduates go on to earn salaries commensurate with their expected student loan debt. More than half of all students attending schools in both the NC Community College and UNC systems do not borrow at all.

Tuition prices at North Carolina's private institutions vary widely, as do their abilities to provide institutional aid. Thus, sticker price and net price are widely variable and sometimes difficult for prospective students to predict. Many of the most expensive private institutions actually offer the lowest prices to low-income students. Aid is less generous for students from middle-income families, which can present challenges to attendance at private institutions. North Carolina's private institutions are diverse in their missions, size, academic performance, and resources, making it difficult to describe them holistically or prescribe common solutions to problems that do exist.

Students at most of North Carolina's private institutions borrow modestly and are able to make positive progress toward debt repayment, although exceptions do exist.

Nonetheless, some North Carolina students at each level of postsecondary education struggle to afford college or to repay their student loans, as shown by North Carolina's 12.7 percent default rate. Many more fail to understand the consequences of their borrowing. Roughly half of all students in the U.S. underestimate how much debt they have and less than a third can come within a few thousand dollars of the correct total.[16] Of particular concern is that nearly 30 percent of student borrowers believe they have no federal debt (despite evidence that they do). These misunderstandings can contribute to nonpayment or default on students loans.

Policy Recommendations

Many of the policies affecting student borrowing are determined at the federal level. However, there are some policy changes available to state reformers and universities themselves. As this commission considers a postsecondary attainment goal for North Carolina, it should focus on policy recommendations to remove barriers to college completion and responsible borrowing.

Improve completion rates, especially at schools with large populations of low-income and first-generation students. Colleges and universities must focus on completion in order to minimize the number of students who leave school with outstanding debt and no credential. Strategies could include:

- Improving advising,
- Accepting additional prior-learning credits,
- Increasing access to AP credit, and
- Other campus-based approaches.

Increase student knowledge of financial aid by making college and university financial aid award letters clear, transparent, and uniform. A recent report revealed that many financial aid award letters to students lack consistency and transparency, which makes it difficult for students and parents to make financially informed college decisions.[17] Many of the letters failed to distinguish between loans, grants, and work-study financial aid. Ameliorating these problems by introducing more consistent and transparent award letters would ensure that more students borrow responsibly and understand the debt they are taking on. It would also help students and families to compare institutions' offers to choose the best fit.

Continue to create and improve articulation agreements to minimize the credit loss and confusion that comes with transfer between institutions. Loss of credits during the transfer process increases total time to graduation and the need to borrow. It can also contribute to a student losing access to federal Pell Grants. North Carolina's Comprehensive Articulation Agreement has begun this improvement process, but more can be done. The NC Community College System, the UNC System, and the Independent Colleges and Universities should continue to improve their articulation agreements, increase collaboration, and introduce new agreements between particular programs and disciplines. They should ensure that the necessary information gets communicated effectively to students so they can take advantage of transfer programs.

Continue to keep tuition low for all students and **target aid** to the students with the most demonstrated financial need. North Carolina's public universities and community colleges are more affordable than many others nationwide. These low, transparent prices draw students to the system and bring affordable education to a broad swath of North Carolinians.

Increase use of performance-based funding for two-year and four-year public institutions. Performance funding provides incentives for college to work toward state goals and priorities, including increased graduation rates and retention rates, decreased time-to-degree, increased efficiency, or better post-graduation outcomes.

Consider changes to state aid programs, including a redefinition of "full-time" enrollment in UNC System schools from 12 to 15 credits per semester. This would encourage students to take the requisite number of hours to graduate on time, thus reducing their need to borrow and accelerate their entrance into the workforce. The state should also consider extending eligibility for the NC Community College Grant Program to non-curriculum programs.

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