Senate Policy Committee
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Testimony on Behalf of Pennsylvania's State System of Higher Education
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and
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Good morning, Chairman Argall and members of the Senate Policy Committee. On behalf of Chancellor Frank Brogan and the Board of Governors of Pennsylvania's State System of Higher Education, thank you for this opportunity to speak with you today about student debt and financial literacy. I am Lois Johnson, the Associate Vice Chancellor for Administration and Finance, and am happy to introduce my colleague, Dr. Patricia (Patti) McCarthy, the Interim Vice President for Enrollment Management and Communications at Indiana University of Pennsylvania (hereinafter referred to as IUP). I will begin with some general comments, and Dr. McCarthy will close our testimony by sharing with you some of the financial literacy and student debt management activities that occur routinely at IUP.

Certainly, rising student debt is a complex issue of national concern. Because there are many contributing factors, it is difficult to pinpoint one solution that would have a significant result of reducing student use of loans. The level of student debt is a symptom; some of its contributing factors include funding of public higher education, financial literacy, transparency in student lending, length of time to graduation, and student choices.

In the Pew Charitable Trust's article, *What Happens When You Warn Students About Their Loan Debt?*, published May 19, 2016, an assumption was posed that when students at Indiana University (in the state of Indiana) received a letter informing them of the financial impact of their student loans, the direct result was an 18% reduction in student borrowing since 2012. However, the article states that it is unclear if the reduction in student borrowing was the result of the letters, as the university had a multifaceted approach to combatting student debt, which included:

- Introducing new financial literacy initiatives including counseling, a podcast, and a website that provides quizzes and calculators;
- Encouraging students to graduate in four years;
- Changing the financial aid process to make it easier for students to reduce loan amounts; and,
- Increasing state and institutional financial aid awards.[1]

Indiana University's experience gained notoriety, resulting in legislation being passed in that state to require similar letters at all universities that receive public funding; Nebraska has followed suit. One other contributing factor to limiting student debt at both Indiana and Nebraska that was not mentioned in the Pew article is the change in the price of attendance to the student and the cost of education funded by the state.

[1] Sophie Quinton, "What Happens When You Warn Students About Their Debt?," *Stateline*, Pew Charitable Trust, May 2016.

Last May, the Center on Budget and Policy Priorities released a study that focused on the change by state since the advent of the great recession (2007/08) in funding of public higher education per student and the change in tuition and fees to in-state undergraduates. It is not surprising that both Indiana and Nebraska rank high in state funding per student (reductions of 6% and 5% respectively, compared to a national average decline of 18%) and, as a result, they ranked relatively low in the increase of the price to the student (16% and 19%, respectively, compared to a national average increase of 33%, adjusted for inflation). As these states have maintained a strong investment in their public higher education institutions and state grant programs, the universities have been able to minimize the financial impact on students, which also helps to curb student borrowing. In comparison, Pennsylvania's state funding through 2015/16 (to universities and to students through PHEAA's State Grant Program) per public student dropped 33% (adjusted for inflation). During the same period, typical in-state tuition and fees increased about 20% (adjusted for inflation). In other words, even though we are grateful for the appropriation increases received in the last two years, Pennsylvania's state-owned and state-related universities have experienced among the deepest cuts across the country during this time period, and yet have protected students by minimizing their increase in price. Such aggressive price control maintains affordability and helps to fight rising student debt.

Another aspect of affordability is the length of time it takes students to complete their education. The more semesters the student pays tuition, fees, room, and board, the more expensive the education and, most likely, the higher the indebtedness at graduation. For years, the State System has focused on increasing graduation rates through its performance funding program. As a result, on average 37% of System freshmen stay in school and graduate within four years, compared to 35% just five years ago, an increase of three percentage points. The comparable national average four-year graduation rate is 26%.[2] Similarly, Indiana University increased its four-year graduation rate by four percentage points over the last five years. (Please note, these are significant changes, even though they may sound small.)

Just as our universities are committed to affordability, they are also committed to improving student financial literacy and transparency of student financial data. The vast majority of student loans are provided by the federal government, which administers extensive oversight and regulations that universities must follow in order to participate in federal financial aid programs, including direct lending. These regulations, which are constantly modified, include expectations regarding financial literacy training and entrance counseling with students before they authorize a loan, as well as loan exit counseling when they are ready to leave the university.

The federal government's entrance counseling requirements include expectations for universities to:

(i) Explain the use of a master promissory note (MPN);
(ii) Emphasize to the borrower the seriousness and importance of the repayment obligation the student borrower is assuming;
(iii) Describe the likely consequences of default, including adverse credit reports, delinquent debt collection procedures under federal law, and litigation;
(iv) Emphasize that the student borrower is obligated to repay the full amount of the loan even if the student borrower does not complete the program;
(v) Inform the student borrower of sample monthly repayment amounts.[3]

[2] Consortium for Student Retention Data Exchange, *2015-16 CSRDE Retention Report*, University of Oklahoma Outreach, June 2016.
[3] U.S. Department of Education, *2016/17 Federal Student Aid Handbook*, Vol. 2, Chapter 6.

Universities typically include financial literacy as part of their freshman orientation and freshman seminar course offerings. Some partner with other organizations for default prevention services. Our universities strengthen students in their borrowing acumen by referring them to their personal comprehensive borrowing information that is available online at the National Student Loan Data System (nslds.ed.gov).

Even though the System's average loan indebtedness of approximately $30,000 at graduation is slightly above the national average of approximately $29,000, our students have a default rate that is significantly below the national and state three-year default rates. The System's most recent three-year default rate averaged 6.9%, compared to a state average of 9.7% and a national average of 11.8%.

At this point I would ask my colleague, Patti McCarthy, to share with you some of the ways IUP has been fighting student indebtedness through a variety of means, including financial literacy, communications with student regarding their loans, increased institutional aid, and student success initiatives that lead to completion in a timely manner.

Dr. Patti McCarthy:

At Indiana University of Pennsylvania, we are committed to the success of our students, and not only their academic success, but success after they leave our institution. While we fully believe that higher education is an investment, it is our intention to ensure that students understand what it means to be a responsible borrower as well.

Students are advised to submit a FAFSA each year in order to determine if the student has any eligibility for state, federal, or institutional grants and/or scholarships. Approximately 85% of our students file the FASFA. In their IUP award letter, language is included to explain all of the details of the various loan programs but it also includes instruction on how to reduce or cancel their student loans, if they so choose. Up to and including the first week of classes, they can reduce/cancel their non-disbursed loans online. After our first disbursement of the term, they must email our office.

Of course, as mandated by federal regulations:

--IUP requires Federal loan entrance counseling at which time students are provided with information about their rights and responsibilities as a student loan borrower—and loans at IUP will not disburse until this counseling has been completed.

--Additionally, students are notified of their right to cancel any or all of their approved federal loans before the loans are applied to their student accounts, just to be absolutely sure the student would like to borrow. This disclosure provides information on how to reduce or cancel the loan at the school or with the Department of Education if after 30 days of the disclosure notice.

--We initiate email notifications to students approximately one month prior to their "pending" graduation date. We send up to three "follow up" notifications, encouraging students to complete the federal Exit Counseling online at www.studentloans.gov. Exit counseling is also sent to students who withdraw from the university during the semester. The importance of exit counseling cannot be trivialized. This is information that is critical to successful repayment and outlines methods of repayment, options for deferment or forbearance, or potential forgiveness programs. The exit counseling will provide the tools to enable students to successfully repay their loans in a way that is most applicable to their personal situation.

--IUP has been creating some new approaches for students who have been identified as having a loan in forbearance or default. This will be an ongoing project we hope to have in production by spring.

From as early as freshman orientation, we provide sessions to students and parents in which we discuss the costs, sources of aid, financial aid requirements (SAP, etc.). Special attention is paid to the various self-help programs, such as Stafford, PLUS and work study. Interest rates and repayment terms are discussed. We also discuss how students can reduce or cancel their loans.

But we know that students will borrow—they may NEED to borrow in order to afford to attend. It is imperative that schools mitigate the amount of loan that a student needs to borrow and that can be done in a number of ways.

--One such method is encouraging students, through strong advising and course availability, to minimize the length of time students take to complete their degrees. This additional time frame often times is accompanied by additional debt, since some state and/or federal grants may no longer be available to the students after their fourth year of school.

--Another is to provide institutional support in the form of grants and/or scholarships. During this current academic year, IUP has committed institutional scholarship dollars to award to students who successfully complete 30 credits in an academic year—which puts students on pace to graduate in 4 years. So, not only do the scholarship dollars help to reduce the cost for the year, it also further reduces a student's potential loan debt by encouraging them to graduate in a timely fashion. In addition to this incentive program, we offer other grants and scholarships to students based on financial need and academics.

--Additionally, through the creation of the Academic Success Center, students are provided with the support to allow them to achieve their academic goals and successfully graduate. Software programs now give schools the ability to better project and anticipate students who are most likely to be successful but also those who may be at risk academically.

--IUP now offers a course, financial wellness that provides: "Theories and principles related to the physical, social, and emotional wellness aspects of individual money management. Information is focused on building a sound financial foundation as a college student and can be applied throughout the life span to ensure future financial well-being." This demonstrates our institutional commitment to ensuring financial wellness that extends beyond graduation.

We would be happy to respond to any questions you may have.