

A Conversation with Jeff Webster

Texas Students Often Lack Skills, Financial Knowledge for College Success

Jeff Webster is assistant vice president for research and analytical services for TG (Texas Guaranteed Student Loan Corp.), a nonprofit that promotes educational access and administers the Federal Family Education Loan Program. He has studied student loan default, debt burden and student retention.

Q. When it comes to college enrollment, education funding and graduating on time, how do Texas students fare?

Unfavorably, if you are concerned about college attainment and timely repayment of student debt.

Among all U.S. ninth graders, 21 percent will go on to graduate high school on time, enroll in college the next fall and graduate within 150 percent of the program length. Only 14 percent of Texas ninth graders managed to do the same. The difficulties begin early.

Based on 2012–13 Preliminary SAT (PSAT) scores, only 37 percent of Texas high school juniors who took the test are college ready, compared with 49 percent nationally. Texas students' SAT scores in critical reading, math and writing trail national averages, reflecting a lack of preparation for college. Regardless of income level, taking a college preparatory curriculum greatly enhances your odds of going to college. Without a college-prep high school diploma, many will forgo or delay college enrollment. If they do enroll, nearly all will do so in an open-admission community college.

The readiness gap partially explains why Texas students choose community college at higher rates. Community colleges account for 45 percent of Texas postsecondary students, compared with 32 percent for the nation. Community colleges are also the lowest-cost option for students—and this matters to Texas students. One's ability to pay for college shapes his/her educational experience in

important ways.

Since community college students tend to be more cost sensitive and debt averse, they often delay enrollment, attend part time and work full time. While this strategy limits out-of-pocket expenses, it disengages students from campus life and can lower their odds of completion. Although less than 27 percent of Texas undergraduates at four-year colleges enroll part time, 64 percent of Texas community college students do. This large group drops out at higher rates.

Q. What are the biggest barriers to bachelor's degree attainment in Texas?

It's a combination of low academic preparedness and inability to afford college. The two interact in interesting ways. Texas has pockets of high poverty where underfunded school districts often lack the resources to adequately prepare their students for college. While polls indicate that American parents want their children to go to college, low-income families are far less confident in their ability to pay. When college isn't financially viable, few students will commit to a challenging high school curriculum. In 2011–12, Texas provided only a quarter of the college grant aid that California did. Student aid has always held out the promise of removing financial barriers and, for many, it has been crucial to their access and success in college. But each year that federal and state governments reduce their commitment to college affordability, more students are unable to

earn a college degree.

My team conducted a study in 2009 that estimated that Texas loses about 52,000 bachelor's degrees per year due to financial barriers. If students from the bottom three quartiles of earnings enrolled and graduated at the same rates as students from the top quartile, our state's workforce would be the envy of the country. What makes the college experience different for the upper income quartile? They are far more likely to enroll at a four-year college straight out of high school, attend college full time and work manageable hours that complement their academics. This makes for an enriching college experience that is far from the norm in our state.

Q. How much student loan debt do Texas college students have, and how does that compare with students in the rest of the nation?

Texas students borrowed about \$5.5 billion in 2011–12. Cumulatively, current and former Texas students have about \$70 billion in outstanding student loans. The national figure is \$1.2 trillion, so per capita, Texas students have borrowed less than students in other states. Most of this borrowing is from the federal government. Because of inadequate grant aid, 60 percent of direct aid awarded annually in Texas is through loans, compared with 51 percent nationally, so loans remain especially important here.

Q. Why do Texas college students take on less debt?

Texas students are more likely to enroll in short-term, low-cost community colleges, so borrowing is less frequent and loan amounts are lower. It is also more common for Texas student borrowers to fail to complete their programs of study; these students borrow less than the graduates.

Low-income students, especially those who have had negative experiences with debt, usually fear debt. They pursue strategies to limit their need to borrow—such as enrolling part time at community colleges and working full time. This comes at a greater risk of dropping out of college.



Q. Default rates on student loans are high and rising. Why do students take on more debt than they can repay?

Texas students gravitate to short-term programs, whether at community colleges or at for-profit career colleges, where default rates are more than twice as high as at four-year schools. But we need to think carefully about that comparison. Remember, these schools serve a different population than four-year schools. Their students are more likely to be from low-income families and need developmental education. While Texas short-term programs generally offer quality education at affordable prices, they serve a population at much higher risk of dropping out and defaulting on their student loans.

Students want to graduate, but whether due to financial or academic circumstances, some will not. Without that credential, and the skills acquisition it represents, students rarely get the income boost they were expecting when they borrowed. Those who fail to earn their degrees are about three times more likely to default than those who graduate. But they aren't the only ones who struggle to repay their loans.

TG and other large student loan guarantee agencies participated in a study with the Institute for Higher Education Policy, which resulted in the report "Delinquency: The Untold Story of Student Loan Borrowing."

Researchers learned that even student borrowers who graduate encounter repayment difficulties. Thirty-eight percent of such graduates either became

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delinquent or defaulted on their loans within five years of graduation. Many in higher education are familiar with U.S. Census Bureau data showing that bachelor's degree recipients earn about \$1 million more over their lifetimes than those with only a high school diploma.

Typically, this is depicted with an upward-slanting line showing greater lifetime earnings with higher levels of education. Many use this iconic chart to tell students, "Just go to college." But if one digs deeper into the data, one sees a different picture that requires a more nuanced message.

The deeper dive reveals substantial variance in earnings outcomes, especially for the highest levels of education. By looking at the 25th and 75th income percentiles by level of education, we learn that significant percentages of people with "lower" levels of education out-earn many people with advanced degrees. From National Center for Education Statistics data, we discovered that students' choice of major explains much of this variance, along with how they apply their training to an occupation.

Our message to students should adjust to this new understanding: "Go to college with a plan for what you will study and how you will use that education in a career." Granted, this is a more complex message to deliver, but by heeding this advice, students will see more favorable debt-to-income ratios and have a more realistic expectation of their future standard of living.

Q. With rising college tuition and relatively flat income growth, what are the alternatives to debt?

The state should view student grant funding as the valuable investment it is. Otherwise we will continue with more part-time enrollment leading to lower graduation rates and higher default rates. Clearly, more high school students taking more rigorous classes, especially

advanced placement credit courses, would ease the debt burden of students, but this is unlikely to happen without a clear sense that college will be affordable. So, debt will remain a necessary evil to students with financial need. This makes more thoughtful and directive counseling of students crucial.

Q. What does your work suggest is the biggest problem with student loan debt in Texas? How do we fix it?

Students seldom understand the commitment they've made when they take out a student loan. Required loan counseling occurs twice, once when students are still figuring out college life—and are unlikely to contemplate the importance of their debt—and then at the time they leave school. Those most in need of loan counseling have already dropped out of college, and they seldom bother to complete the exit counseling.

Students participating in both of these federal online counseling sessions often report that the experience is complex, legalistic, unintuitive and often irrelevant to their individual circumstances. These online tools need to be fundamentally revised to make them more user-friendly and comprehensible. Students also need access to comprehensive counseling on an as-needed basis.

The state of Texas will soon launch a pilot program that will provide critical consumer information for students, especially as it relates to borrowing and career planning. The pilot will include financial literacy training, annual loan counseling, college-going tips and access to a contact center with expertise on a wide range of financial and student aid topics. This pilot will also convene practitioners and experts from financial aid, academic advising and career counseling to explore ways of better coordinating counseling messages to students.