

Statement of Charles B. Reed, Chancellor
The California State University
Before the House Committee on Education and Labor
"Increasing Student Aid through Loan Reform"

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Chairman Miller, Ranking Member McKeon, and members of the committee, thank you for inviting me to discuss the California State University (CSU) programs that support access to California's neediest students and the importance of federal student financial aid to help achieve that goal. The CSU commends the committee for its attention to the important task of ensuring that every student that chooses to do so can pursue a postsecondary education. I am pleased to share with you our system's experience with federal student educational loan programs and with federal need-based aid programs.

The California State University – Background

Few, if any, university systems can match the scope of the CSU system. The CSU is the largest four-year university system in the country, with 23 campuses, approximately 450,000 students and 47,000 faculty and staff. The CSU's mission is to provide high-quality, affordable education to meet the ever-changing needs of the people of California. Since the system's creation in 1961, it has awarded almost 2.5 million degrees. We currently award in excess of 91,000 degrees each year.

The CSU plays a critical role in preparing outstanding candidates for the job market. Our graduates help drive California's aerospace, healthcare, entertainment, information technology, biomedical, international trade, education, and multimedia industries. Altogether, about half the bachelor's degrees and a third of the master's degrees awarded each year in California are from the CSU.

The CSU faculty's applied research activities in agriculture, water resources, public health, biotechnology and homeland security, to name a few, emphasize real time solutions to support both decision-makers and practitioners.

One key feature of the CSU is its affordability. For 2009-10, the CSU's systemwide fee for full-time undergraduate students will be \$3,354. With individual campus fees added in, the CSU's total fees will average \$4,155, which is the lowest among any of the CSU's comparison public institutions and among the lowest in the nation. Even with our low costs, many CSU students continue to have great financial need. More than half of our students (255,741) receive financial aid. Thanks in part to federal programs supported by this committee and to California's need-based aid programs, we have been able to keep costs down for those who need the most help; for example, most CSU students with family incomes of \$75,000 or less pay no student fees at all.

The California State University – Its Students

CSU students are not necessarily the traditional 18 to 22-year-olds. A recent survey of CSU students revealed the following:

- The average undergraduate age is 24,
- About 92 percent are commuters,
- 39 percent are independent from their parents,
- Nearly one in four have dependents,
- Three out of four have jobs, and 18 percent work full time,
- About 35 percent are the first generation in their family to attend college,
- 54 percent of CSU students are students of color.

The CSU prides itself on its ability to provide college access to students across California's increasingly diverse population. More than half of our campuses are designated as Hispanic-Serving Institutions. The CSU provides more than half of all undergraduate degrees granted to the state's Latino, African American and Native American students.

Additionally, CSU students are closely connected and committed to the communities in which they live. More than 194,000 CSU students participate in community service annually, donating nearly 32 million hours. The economic impact of this service equates to \$624 million.

CSU Participation in the Direct Lending and FFEL Programs

CSU campuses participate in federal student educational loan programs either through the Federal William D. Ford Direct Student Loan (Direct Lending) or the Federal Family Education Loan (FFEL) program. Between the two programs, roughly 147,000 CSU students borrowed just under \$1 billion in 2007-08. During the 1990s, after the Direct Lending program was enacted, approximately ten CSU campuses made the transition to that program, and for the most part those campuses have remained with Direct Lending ever since. Earlier this decade, several other CSU campuses decided to make the switch to Direct Lending, such that by this coming fall fifteen of the twenty-three CSU campuses will be in the Direct Lending program.

Historically, campuses that chose the Direct Lending program tended to view the following characteristics as advantageous:

- Single point of contact for schools, student, and parent borrowers
 - Easier for schools to administer
 - Financial aid software incorporates the Direct Lending process much better than FFEL
 - Easier for staff to deal with students and offer better customer service
 - Direct Lending disbursement process mirrors Pell, ACG and SMART Grants in dealing with COD (Common Origination and Disbursement) system with US Department of Education
- Schools do not have to deal with multiple lenders, servicers, and guarantors

- Elimination of inconsistencies between lenders and lender response times to students
- Faster origination and disbursement compared to FFEL
- Funds not tied to individual students and loan types
 - School can determine which students and loan types to disburse
 - Re-allocating funds from Subsidized to Unsubsidized loans is much easier
 - This situation is caused by recalculation of eligibility due to enrollment changes or other aid coming later such as scholarships and stipends
- Direct Lending offers standard borrower benefits
- Income Contingent Repayment Plan is better than FFEL

At the same time, these campuses tended to deem some aspects of the FFEL program to be less desirable:

- Students and the university must deal with multiple lenders, servicers, third party systems for loan processing, guarantors
- Each entity wants to meet with university personnel (particularly those in financial aid) to promote their particular business/services to the school and its students
- The campus must initiate a *Request for Information (RFI)* to all lending partners in order to analyze services and benefits and determine if schools want to use them on their preferred lender lists
- University must adhere to “sunshine” provisions dealing with lending partners
- Students and the university must deal with multiple contacts with each entity to set up loan process
 - Guarantor flow, lender flow, school flow, etc.
- Campus must return funds to third party disbursing agent by Master Check for students rather than individual check for each student

During the 1990s and into early this decade, roughly half of the CSU campuses continued to participate in the FFEL program. Those that chose to do so were apt to find the following characteristics of the program appealing:

- Multiple lenders, servicers, guarantors leads to competition; schools and students have choices
- Traditionally, customer service was thought to be better than it is with Direct Lending (though less true in current financial environment)
- Lenders and guarantors offered more default prevention activities and services to schools and borrowers
- Lenders were able to choose to give better borrower benefits than Direct Lending (many have now stopped or drastically reduced given the current fiscal situation)

FFEL campuses also were likely to have the following concerns about the Direct Lending program:

- Single entity

- The lack of competition could lead to complacency in addressing issues related to processing and customer service
- If there is a problem with a student record, must wait until Direct Lending Servicer fixes problem
- Political Uncertainty
 - In the mid to late 1990s, Congressional limitations on the percentage of institutions that could shift to Direct Lending kept many campuses from doing so
 - Congressional debate and continuous attempts to eliminate the Direct Lending program raised concern about the future viability of the program

In 2008-09, 10 CSU campuses participated in Direct Lending. For 2009-10, 5 more CSU campuses have moved to Direct Lending, and the remaining 8 CSU campuses are in the process of moving to Direct Lending for 2010-2011.

Many of these campuses were considering changing to Direct Lending anyway, but events of the past few years have contributed significantly to this shift. First, changes to federal law through the budget reconciliation process that reduced FFEL lender margins over the last two Congresses have led to a decline in FFEL lender service and reliability and a reduction in borrower benefits. Second, our nation's financial crisis, which has hit the banking industry particularly hard, has raised significant concerns about the long-term viability of participating in FFEL. Third, previous institutional concerns about the future viability of the Direct Lending Program have been eliminated.

Stability and reliability in a campus's student loan program is tremendously important to our students and our institutions. Given this situation, coupled with the ready availability of a proven alternative in Direct Lending, beginning last year I strongly encouraged all of our remaining FFEL campuses to make the switch to Direct Lending.

Increases to Student Aid

Pell Grants Increases

The Pell Grant program continues to represent the foundation of federal student financial aid programs. As the most need-focused federal financial aid program, strengthening Pell is essential to closing the gap in college enrollment and completion that exists between low-income students and their more affluent peers. A continued commitment to the Pell Grant program, and to increases in the maximum Pell Grant award, are essential to ensuring access for disadvantaged students. Across the CSU System, 124,000 students received \$364 million in Pell Grant awards in academic year 2007-2008 (the last year for which data are available). The average CSU Pell Grant recipient receives \$2,943 per year from the program, and Pell Grants account for 18 percent of the funds awarded to CSU students. The recently enacted American Recovery and Reinvestment Act includes a \$619 increase in the size of the annual Pell Grant, raising the maximum grant to \$5,350 in 2009-10. We estimate that this will result in over 128,000 of our most financially needy students receiving an additional \$81 million in 2009-2010, bringing total Pell Grant funding received by our students to \$445 million. CSU's long-standing financial aid

policy will continue to require that increases in all federal and state grant programs reduce our students' loan indebtedness on a dollar-for-dollar basis. Approximately 30,000 Pell recipients received CSU bachelor's degrees in 2006-2007. On behalf of CSU students across California, I would like to thank the members of the Committee for that support. The CSU endorses continued efforts to increase this vital aid for students.

Effect of Increased Federal and State Grants on Loan Indebtedness for CSU Students

CSU's relative affordability, coupled with increases in the Federal Pell Grant and increases in CSU's grant programs, have enabled us to hold down the extent to which CSU students incur debt to finance their education. Over 57% of our baccalaureate recipients graduate from CSU without any debt, compared to the national average of 33%. Of the 43% of our baccalaureate degree recipients who assume student loans, the average debt is substantially below state and national averages: \$14,013 for CSU graduates, \$17,215 for all other students graduating in California, and \$20,098 for students who graduate nationally. Keeping student loan indebtedness low for CSU students is a direct result of the commitment of Congress to increase funding for the Federal Pell Grant.

Furthermore, the CSU has taken an extra step in making this kind of financial information about student debt, lower-income student access, actual cost or "Net Tuition" available to students, families and taxpayers. The CSU has committed to providing data on student learning, student engagement, and enrollment and graduation as part of a national initiative called the [Voluntary System of Accountability](#). Each of the 23 CSU campuses has developed a web-based page called the College Portrait that is designed to specifically communicate accountability data to the public. In addition, the CSU is going beyond the [VSA College Portrait](#) and has developed its own unique "public good" contributions page. Included in this page is campus specific information on total degrees awarded, the contribution of CSU students to the workforce, the number of Pell Grant recipients, average net tuition to attend a CSU and fees paid per student, as well as the average loan debt for CSU bachelor's degree recipients. A copy of the [CSU Systemwide Public Good](#) page is also available. For more information, see <http://www.calstate.edu/PA/news/2008/accountability.shtml>.

Concern about Year-Round Pell Implementation

The CSU is thankful to members of this Committee, and particularly to Chairman Miller and Ranking Member McKeon, for their inclusion of a year-round Pell Grant in the Higher Education Act. Year-round study enables students to complete their academic degree in less time than might otherwise be required. This reduces the amount of time that a student spends in school, saves the student money (and reduces borrowing), and permits more efficient use of campus facilities and resources at a time when those resources are being stretched due to increasing enrollments and tightening state budgets. Increasing enrollment demand will be a national trend for the foreseeable future, and we fully expect a number of institutions to utilize a year-round calendar as a resource management strategy. The CSU is concerned by reports that the Department of Education may be considering tightening the definition of students who are eligible for year-round Pell Grants by requiring them to have completed 24 hours of academic credit during an academic year to qualify for continuing Pell Grant funds during the following

summer. As noted earlier, the average age of CSU undergraduates is twenty-four. In addition, seventy-five percent of our students work, and eighteen percent work full time. Consequently, many of our students are not in a position to enroll full-time each term. Requiring students to complete 24 hours of academic credit during an academic year to qualify for a year-round Pell Grant will disadvantage non-traditional students served by institutions like the CSU and the community colleges. We urge the committee to oppose such an interpretation if necessary.

Proposed Access and Completion Fund

The CSU notes that the Administration has proposed a new \$500 million per year postsecondary “Access and Completion Fund.” This proposal would provide grants to states and non-profit organizations to help underserved populations pursue and complete a postsecondary education. Funding would be mandatory, and funding would be on a competitive basis. The CSU is very supportive of this concept, and would like to offer its experience in developing this new program, should Congress decide to authorize it.

Access to and completion of a postsecondary education for low-income and underrepresented individuals is a primary purpose and function of the CSU. The CSU provides more than half of all undergraduate degrees granted to the state’s Latino, African American and Native American students, and roughly one-half of CSU campuses are Hispanic-Serving Institutions (HSIs). Approximately 35 percent of CSU students are the first in their family to attend college. For Academic Year 2006-2007, 37 percent of CSU’s undergraduate students were Pell Grant recipients. Currently, over 50 percent of CSU students (255,741) receive some financial aid.

In order to best serve these students and ensure that they have the tools to complete their education, the CSU has undertaken a number of initiatives. For example, the CSU encourages students from underserved populations to prepare early for and pursue college through initiatives such as its “Steps to College” poster, which describes for middle and high school students (grades 6 –12) and their families the steps they need to take to prepare and apply for college and financial aid. More than 1 million copies of the award-winning poster in eight languages have been distributed to students throughout California and in many states throughout the country.

CSU is also working with churches in the Southern California (Los Angeles Basin) and the Bay Area (Oakland, San Francisco, San José, and Vallejo) that serve African American congregations in an effort to increase the pool of African American students, particularly males, to become eligible to attend a four year university. In February/March 2008, CSU held “Super Sundays” at 22 churches in Los Angeles, reaching over 57,800 people. In the Bay Area, CSU “Super Sunday” programs were held at 30 churches reaching over 29,285 people. CSU campus presidents, and members of the Board of Trustees and Board of Governors, are given the opportunity by the participating churches to speak about how to get to college as part of the church service. The participating campuses set up booths to distribute materials and answer any questions regarding college preparation, admittance, retention and graduation. CSU’s “Steps to College” posters were distributed to over 29,000 parents, grandparents and students. This program has resulted in the identification of a contact person at every church who is dedicated to college knowledge and college preparation.

One of the most important tools the CSU has developed to reach high school students is the Early Assessment Program, known in California as simply the “EAP.” CSU created this early assessment of college readiness program in collaboration with the California Department of Education and the State Board of Education. It provides 11th grade students a ‘snapshot’ of their mathematics and English/language arts proficiency. The test incorporates the CSU’s placement standards into the California Standards Tests for English and math.

The EAP identifies students - before their senior year - who need to do additional work in English and/or mathematics prior to entering the CSU. The EAP informs students, families, and high schools of a student’s readiness for college-level work in these subjects. Most importantly, it provides an opportunity for the high school to work with the students while they are enrolled in 12th grade to help them to master the requisite English and math skills expected of a graduating high school senior. The three key components of the EAP are: (1) early assessment in 11th grade in English and mathematics, (2) supplemental high school preparation in 12th grade, and (3) teacher professional development designed to equip high school English and mathematics teachers with the tools necessary to ensure student mastery of the content standards. Although the EAP is voluntary, last year almost 330,000 students took the EAP English test, and approximately 148,000 took the mathematics test.

The CSU is a major participant in the federal TRIO and GEAR UP programs, which provide low-income students the skills, encouragement, and academic preparation needed to enter and succeed in high school and postsecondary education through partnerships between schools, universities, the private sector, and community organizations. In academic year 2007-2008, the CSU received \$6.8 million in TRIO funding to serve 56,500 students. Since 1999, the CSU has received \$112 million in GEAR UP funds to serve 29 California schools and 12,144 students.

Finally, the California State University is developing a new “Center to Close the Achievement Gap,” which will be a partnership between the business community through California Business for Education Excellence (CBEE) and the CSU, and will transform preparation and performance of new teachers and administrators in participating CSU Colleges of Education across the state. Teachers and administrators graduating from participating campuses will have enhanced skills to: (1) significantly reduce achievement gaps in reading, writing and math; (2) prepare high school graduates with the skills to succeed at college level work; and (3) decrease college remediation rates while increasing degree completion rates.

The CSU and similar institutions are building the foundation to ensure that all Americans have the chance to pursue and complete a college education, and gain the skills they need to play a productive role in the economy of the future. As you consider this proposal, we hope that you will allow us to play a key role.

Access and Completion: A CSU Proposal for a New Kind of Institutional Aid

As this committee contemplates ways to improve educational attainment for lower-income and underrepresented students, I also urge you to consider a bold, new direction. In the early legislative history of what is now the Pell Grant program, Congress developed federal student aid grants to help economically disadvantaged students attend higher education institutions of their

choice. In recognizing the educational disadvantage and substantially higher cost for educational services that accrue to the colleges and universities where many lower-income students enroll, the originally authorized Pell Grant or BEOG legislation envisioned direct institutional grants to colleges and universities that would accompany Pell Grant recipient students. These institutional grants were designed to provide the appropriate educational services necessary for these students to succeed and eventually graduate.

This original program, which was authorized in 1972 but never funded, was known as the “cost of education allowances” and was based on a similar concept advanced in the Elementary and Secondary Education Act (ESEA) in 1965, known as Title I. At the heart of this concept is the widely accepted premise that economically disadvantaged students cost more money to educate than students from wealthier backgrounds. Title I was created to provide supplemental federal funding to those elementary and secondary schools with above-average numbers of lower-income students. In 1972, the cost of education allowances program was authorized to achieve the same objective by providing supplemental resource support to colleges and universities in order to provide essential educational assistance to Pell Grant recipient students.

The time has come to resurrect this idea. This policy would provide a specific flat “capitation” institutional grant per lower-income student to every college and university that meets a minimal enrollment threshold of 20 percent. To ensure that these funds are properly devoted to student enrichment, this current proposal could be shaped to require that federal funds must be used to support campus-based academic and student service programs specifically designed to assist Pell Grant-eligible students. Such a program could also create important and much needed fiscal incentives for public and private institutions to not only enroll, but to retain and graduate more lower-income and lower-middle income students. Also, the amount of the federal flat grant award to institutions could be moderately increased or decreased, based on state support for higher education. This would provide an incentive for maintaining certain levels of public funding of higher education, similar to the non-supplanting provision found in Title I of ESEA. This additional maintenance of state effort provision could help better stabilize higher education funding, and thus better stabilize student tuition and fees as well. Developing new federal policies that encourage states to maintain their commitment to financing widespread access and completion in higher education is essential if our nation is to reverse the relative international decline that we have experienced over the last few decades. If we are going to improve our nation’s achievements in higher education, America must invest in our most needy students, while also investing in those institutions that will serve them.

A more detailed discussion of this proposal is attached as Appendix A.

Conclusion

The CSU has long appreciated this committee’s efforts to provide assistance to our neediest students. We welcome the opportunity to be a resource to you as you continue to explore ways to ensure access and success in higher education.