THE RISING COST OF HIGHER EDUCATION: THE EFFECTS ON ACCESS, RETENTION AND AFFORDABILITY

A Thesis
submitted to the Faculty of
The School of Continuing Studies
and of
The Graduate School of Arts and Sciences
in partial fulfillment of the requirements for the degree of
Master of Arts
in Liberal Studies

By

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August 11, 2009
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ABSTRACT

The issues of access, retention, and affordability have plagued higher education for decades. Within the last twenty years, these problems have been exacerbated by the rising cost of higher education; a figure that has been outpacing inflation annually. The financial aid system, both institutional and federal, was established to make higher education more attainable for those without proper resources. However, the system has failed to maintain its fiscal relevance over time. The complex application forms and various funding sources have resulted in great difficulty for students and families encountering costs that approach $60,000 per academic year at America’s highest cost institutions. The rising costs of a college degree are forcing families to make decisions that may result in the student attending an institution of lesser academic prestige, relying on private education loans that may produce crippling debt, or never attending an institution of higher education at all.

This analysis explores the rising costs of higher education and the residual affects on access, retention, and affordability. Cost drivers and the data related to costs are analyzed through various government and higher education reports, and works by higher education experts and economists. The complexity of driving factors created an environment rampant with finger-pointing and confusion over causes and solutions.
Further examination of cost figures, in comparison to limited federal student loan increases, illustrates the government’s contribution to the cost gap. Alternate funding sources that families seek out are explored and their affects on retention and affordability are described. The effectiveness of four proposals to increase access, retention, and affordability are critiqued and analyzed. Just as the causes of the cost gap are intricate, so are the potential solutions. The Rethinking Student Aid Study Group focuses on revamping financial aid as its solution, while the Lumina Foundation suggests improvements to the roles of federal and state governments. The Advisory Committee on Student Financial Assistance offers a hybrid of the previous two proposals. The solutions put forth by the Spellings Commission prove to be the most viable and provide the greatest potential to globally repair the fractured higher education system by increasing transparency and accountability.

Underpinning the issues of access, retention and affordability are various values that shape and motivate stakeholders of higher education. Education is vital to improving the self, which has positive net effects on society. Class divisions are created out of a system that promotes wealth over merit. Limits on the individual to fulfill the American dream through education jeopardize America’s strong position in the expanding global marketplace. Improvements to higher education are necessary to prevent social erosion that is a result of limited access, poor retention figures, and rising costs.
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INTRODUCTION

A litany of issues affect the sphere of higher education with almost none being more pronounced than rising costs. Associated with the issue of costs of an undergraduate degree are the residual concerns of access, retention and affordability. The American public’s perspective on the value of higher education is clear with 55 percent of respondents to a 2008 Public Agenda/National Center for Public Policy and Higher Education survey stating that a college degree is the only way to achieve success, up five points from the prior year. The importance of higher education is evident to the achievement of one’s personal goals and the results of those accomplishments have positive net effects upon society. Comprehending the value of higher education and the desire to attend a college or university does not necessarily translate into increased enrollment or a guarantee for success. The rising costs of higher education have been outpacing inflation in recent years and that is adding to the difficulty for the average American to obtain a college degree. In the same Public Agenda/National Center for Public Policy and Higher Education survey, 62 percent of the respondents stated that numerous qualified individuals do not have the opportunity to attend college. The largest, and most likely, obstacle preventing the qualified individual from attending an


institution of higher education is the cost of the degree and the family’s ability to pay the bill every semester. The issue of cost is connected to access with access becoming a predominant concern for policymakers, higher education administrators, and students. Rapid increases in costs have resulted greater concerns pertaining to access, and this issue has stepped to the forefront of the higher education conversation.

The higher education issues do not subside upon enrollment. Retention of the student is also of large concern for policymakers and higher education administrators. In the last two decades, the numbers graduating from institutions of higher education have only risen by three percent, despite a 20 percent enrollment increase. That enrollment increase is not indicative of an end to the access issue. Rather it signifies the growing importance of higher education and the first generations of students that a bachelor’s degree became the standard by which success could be measured. During this period of enrollment growth, costs escalated as a residual effect of the rising demand for higher education. Although more students were enrolling, only a slight increase of the education consumers were fulfilling their obligations and completing their degrees. Administrators without the restraint of state, federal, or industry regulations have not demonstrated fiscal responsibility and aided in the perpetuation of the problems that plague their own colleges and universities. The issues of access, retention, and affordability are as complex in their factors as they are in their potential solutions, and the various stakeholders with the ability to foster change must reassess their roles in order to return

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higher education to its status of an attainable reality for those wishing to achieve their personal goals.

Students not fortunate enough to have the fiscal solvency to afford higher education through their own family’s resources must navigate the complicated and overwhelming financial aid system in an attempt to subsidize their education endeavors. The numerous avenues from which a student may receive funding do not assist in making the process streamlined and the more programs available, the more difficult it becomes to comprehend the nuanced differences between them. The largest entity offering need-based assistance to these students is the federal government, and the various programs have not completely fulfilled the essence of their obligation to make higher education a more affordable reality. This is particularly evident in the federal student loan programs. The comparative numbers between the rising costs of higher education and the federal student loan limits illustrate that the administrative financial recklessness on college campuses and the reluctance to increase loan indebtedness, despite issues of access, by Congress have resulted in a climate of stress and desperation for families who are struggling to pay their bill. These families have been forced to seek out alternative avenues of finance, regardless of the risk involved or the negative financial impact that they may incur.

The options that exist for students outside of the financial aid process are limited. Some have relied on credit cards, while most have sought out the private education student loan. The poorly regulated private student loan grew immensely in the last decade and became the most viable option for those struggling students whose parents
refused to or could not help pay the bill. For those students fortunate enough to receive parental assistance, their funding could come from a variety of sources. Parents rely on such funding sources as the Federal PLUS Loan, home equity loans, savings and income, credit cards, retirement funds, and pre-paid college plans. It is the decision of each family as to whether they prefer to increase their indebtedness, reduce their personal capital, or a combination of both. What becomes evident through the analysis of how families are piecing together the funding of a higher education degree is that the status quo can no longer remain, and drastic change is necessary to alleviate the concerns associated with access, retention, and affordability.
CHAPTER ONE: THE ROOTS OF THE RISING COSTS OVER THE LAST TWENTY YEARS

Cost of Attendance versus Price of Attendance

One of the largest obstacles facing college-bound students and their parents is the amount of money that they will initially put toward the investment of higher education. It is well documented, and now considered common knowledge, that individuals with degrees of higher education are more likely to obtain financially successful jobs than those who do not pursue specialized degrees. In 2005, full-time workers with a bachelor’s degree had a median annual income of $50,900. That is 62 percent greater than the $31,500 median annual income of workers with a high school diploma.¹ The return on the higher education investment is evident with rising costs causing families to reassess which colleges and universities are feasible according to their financial situation. There are differences between what institutions of higher education refer to as the “cost of attendance” and the actual price of higher education, and an explanation of the semantics is helpful to comprehend the true financial challenges facing students as they prepare to further their education.

In the late 1990s, a commission was created to analyze and report on the rising cost of higher education. The aptly titled National Commission on the Cost of Higher Education was comprised primarily of higher education administrators and they were

charged with providing “straight talk” on the escalating costs faced by college-bound students and families. Prior to the Commission’s written report, an explanation is provided of the differences between the cost and price of attendance of higher education, and the same clarification is helpful in this analysis. The actual cost per student is a figure important to higher education administrators because that is “the average amount spent annually to provide education and related services to each full-time equivalent student”.  This cost per student is what the institution must spend for each student’s educational experience, not the amount for which the student and their family is responsible. That amount, the price of attendance, is an estimated figure comprised of tuition, related fees, room, board, books, personal expenses, and travel. Institutions of higher education do not refer to that estimated attendance budget for each student as the price of attendance. Rather, they reduce the daunting number by referring to it as the cost of attendance. The psychological difference between price, which makes people think of a purchase, and cost, which creates an atmosphere of necessary related charges, assists families in making the decision to potentially invest upwards of $200,000 for four years of higher education. As evidenced by the creation of the National Commission on the Cost of Higher Education, regardless of the title of the attendance budget, the amount of money now required to obtain a degree of higher education has become a concern of students, parents, higher education administrators, and politicians. This apprehension over college costs is not a recent development. The rate of increase in the last twenty

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years has developed so rapidly that the discussion is becoming more common while nearly no significant changes to the system have been implemented to stem the cost of attendance growth.

**Primary Types of Higher Education Institutions**

There are four primary categories of schools of higher education: public four-year colleges and universities, private four-year colleges and universities, and public and private two-year colleges. Public four-year institutions tend to have lower admissions standards and a reduced cost of attendance, in particular for in-state residents, than their private college and university counterparts. Depending on one’s field of study, the four-year public college and university may offer an educational experience comparable to the higher priced private school. The public two-year college is more commonly referred to as a community college. Additionally, private trade-schools comprise the remaining number of two-year institutions. The process to obtain a degree from a two-year institution is less rigorous and does not carry the same prestige as a degree from a four-year school. Although a degree from a trade school is valuable in the specific profession studied, it is difficult to transition that specialty into another field. The admissions standards and costs of a two-year college are lower than the four-year schools. The four categories of colleges and universities have all witnessed an increase in their cost of attendance over the last two decades, despite their varying quality and cost differences. For the purposes of this analysis, the primary focus is on four-year private and public institutions of higher education due to their similarities in student populations, while the
two-year institutions are comprised of larger cohorts of non-traditional students and tend to be atypically affected by the costs of higher education and the residual loan debt.

**Increases in the Cost of Attendance over the Last Twenty Years**

The late 1980s witnessed a rise in college attendance. Yet it still pales in comparison to the amount of students enrolling today. Between 1987 and 2005, full-time undergraduate enrollment increased by almost 30 percent, from approximately 11 million students in 1987 to nearly 15 million students in 2005.\(^3\) As the number of attendees began to increase, so did the costs affecting these students. Between 1987 and 1996, the tuition costs alone at public four-year institutions rose from an average of $1,688 per student to $3,918 per student, an increase of 132 percent. During the same time period at four-year private institutions, the tuition cost rose from an average of $6,665 per student to $13,250 per student, an increase of 99 percent.\(^4\) The percentage increase in the public institution is greater than the private institution with the overall cost at the private remaining significantly higher. This decade of increase in the cost of higher education gave way to even greater increases in the following 10 years. The National Commission on the Cost of Higher Education was created as a result of governmental concern into the

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\(^4\) James Harvey, Roger M. Williams, Rita Kirshstein, Amy Smith O’Malley, and Jane V. Wellman, *Straight Talk about College Costs and Prices*, 5.
There are numerous other non-governmental organizations that have researched and reported on costs related to higher education. The foremost not-for-profit entity reporting on trends in higher education today is the College Board. The College Board produces numerous annual and ad hoc studies, as well as providing data and sponsorship to other individuals and organizations analyzing higher education. In their most recent 2008 “Trends in College Pricing” report, the data pertaining to the costs of higher education include the timeframe analyzed by the National Commission on the Cost of Higher Education and the subsequent decade. Additionally, the figures account for inflation to give a more accurate representation of how the increases affected students and their parents. The following data represent the cost of tuition and fees over the past two decades at both private and public four-year institutions.

**Table 1. Average Cost of Tuition and Fees at Four-Year Institutions, 1988-2009**

<table>
<thead>
<tr>
<th>Academic Year</th>
<th>Private Four-Year Institution</th>
<th>Public Four-Year Institution</th>
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</thead>
<tbody>
<tr>
<td>1988-89</td>
<td>$14,857</td>
<td>$2,929</td>
</tr>
<tr>
<td>1998-99</td>
<td>$19,825</td>
<td>$4,376</td>
</tr>
<tr>
<td>2008-09</td>
<td>$25,143</td>
<td>$6,585</td>
</tr>
</tbody>
</table>


The detail level of the data provided by the College Board also incorporates more facets of the overall cost of attendance components utilized by administrators than just
the tuition and fees in the above chart. The following data represent the average costs of tuition, fees, room and board over the past two decades, as adjusted for inflation. These average figures do not contain the data for the other associated costs of book, personal and travel that institutions build into their cost of attendance budgets for each student. The reason that specific data are not successfully reported is because it varies from student to student and is not significant in comparison to the other reportable costs in the chart.

Table 2. Average Cost of Tuition, Fees, Room and Board at Four-Year Institutions, 1988-2009

<table>
<thead>
<tr>
<th>Academic Year</th>
<th>Private Four-Year Institutions</th>
<th>Public Four-Year Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988-89</td>
<td>$21,644</td>
<td>$8,270</td>
</tr>
<tr>
<td>1998-99</td>
<td>$27,580</td>
<td>$10,471</td>
</tr>
<tr>
<td>2008-09</td>
<td>$34,132</td>
<td>$14,333</td>
</tr>
</tbody>
</table>


Over the past two decades at private four-year institutions, the average tuition and fees has increased by 69 percent, while room and board has increased by 32 percent. The overall cost increase of tuition, fees, room, and board for students at those schools has risen by 58 percent. At the public four-year institutions, the average annual costs have risen by 73 percent over two decades. These are the numbers that plague policy makers. Concurrently, politicians comprehend the role of higher education in the progress of society as they attempt to find the balance between the funding needs of the university
and the financial solvency of the student and their family. The demand for higher education has increased and more students are enrolling in colleges and universities resulting in administrators being faced with justifying raising costs, while simultaneously encountering greater operating expenses to ensure their product is worth the steep sticker price.

**Justifications for the Rising Costs of Higher Education**

Administrators of higher education face an annual challenge of determining the cost increases that affect their students. They must find the balance between producing an enticing, successful product that will retain current students and attract prospective admits, while not out-pricing those same consumers of education. Without enough students providing the revenue, administrators will be forced to reduce their spending elsewhere. From the perspective of the administrator, a reduction in other services is detrimental to the overall education experience being offered by their institution.

The various spending outlets encountered by administrators all play a significant role in maintaining the integrity of their product, as well as the enticement for the students to enroll at their institution. While individual students may find certain categories of spending to be more appropriate for their personal university experience, administrators are tasked with analyzing the entire student body, not just the individual. Administrators of higher education need to consider nine primary budgetary spending expenses:
1) Instruction: Costs associated with instruction, which includes faculty salaries and benefits, office supplies, and academic department administration.

2) Research: Costs associated with research projects and/or research centers.

3) Public service: Activities of noninstructional value to groups outside of the university.

4) Student services: Noninstructional services, such as admissions, registrar, career counseling, financial aid administration, student organizations, and intramural athletics.

5) Academic support: Costs associated with library facilities, technology, museums, deans’ offices, and curriculum/course development.

6) Institutional support: Administrative services, executive management, legal and fiscal operations, and public relations.

7) Scholarships and fellowships: Institutional spending on scholarships and fellowships used as an enticement to attract students of financial need or merit value.

8) Plant operation and maintenance: Service and upkeep of the entire physical plant of the university, which includes grounds and buildings maintenance, utilities and related property costs.

9) Auxiliary enterprises, and hospital and clinics: Costs associated with providing student healthcare, and expenses related to dormitories, bookstores, and meal services.\(^5\)

Depending on the university, some of the vast costs of operation are subsidized with federal or state assistance. However, administrators cannot rely solely on that funding. All nine categories of cost create a level of product expectation for the consumer, and administrators are mindful of that every time a prospective student or parent steps onto their campus. If expectations are not being fulfilled and the competition offers a more enticing educational experience, schools will begin to lose revenue and see a drastic reduction in their student population. All of these factors combine to create a very precarious position for administrators, as they assess annual increases to the cost of attendance budget and attempt to not out-price their consumers.

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In addition to understanding what causes the steep rise in college costs, it is useful to understand why these increases occur. In a 1996 congressional testimony, Dr. David Breneman, Dean of the Curry School of Education at the University of Virginia, outlined two primary and competing theories in an attempt to succinctly illustrate why college costs have increased so rapidly and steadily. The first theory stems from the work of economists William Baumol and William Bowen. The “cost disease” theory postulates that in order to maintain a product of competitive value that productivity growth must be ignored, while costs increase to ensure a product that remains enticing to all involved in the higher education process. Examples of productivity growth in education are an increase in students per classroom or the amount of classes taught per professor. Both of which would be detrimental to the overall education experience for the student. The competing theory to work of William Baumol and William Bowen is Howard Bowen’s “revenue theory of costs”. This theory states that the costs of higher education have increased due to the rising revenue available to the colleges and universities. With revenues and costs inextricably connected, they will rise or fall together.6

The cost disease theory was created for industries outside of higher education. In contrast, the revenue theory of costs is specific to that field. Howard Bowen’s work laid the foundation for numerous other theories pertaining to the rising costs of higher education. In 1991, Malcolm Getz and John Siegfried, professors of economics at

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Vanderbilt University, listed six reasons for cost increases, one of which was the cost disease theory. The other five explanations are: “cost increases arising from a change in the product mix toward more expensive disciplines; cost increases arising from shortages of higher education inputs; cost increases arising from faculty and administrators in charge having inflated desires for quality; cost increases from poor management in higher education; and cost increases arising from government regulations creating expanded duties for higher education.”  

The work of Getz and Siegfried signifies awareness that the rising costs are an issue borne out of a plethora of factors and that it cannot be traced back to one particular source. Various cost driving factors allow for the dispersal of blame and the continuance of the problem. It is difficult to seek resolution to an issue when it is perpetuated by the various stakeholders. The recognition of these numerous influences by economists, higher education administrators, and politicians is indicative of the difficulty faced when attempting to explain how the costs have increased. The problem becomes even more pronounced when attempting to assess viable ways in which to stem the rising costs of higher education.

**Explanations for Uncontained Rising Costs**

Depending on the financial strength of each student’s family, the process of paying for the investment of higher education may be quite simple for some and extremely complicated for others. For the wealthy students, obtaining a college degree

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may be as easy as their parents or family member writing a check to the school at the beginning of each semester. This financial arrangement between the two parties demonstrates the business-like structure that often gets overlooked when discussing institutions of higher education. Where these institutions differ from corporations is that they realize that a diverse student population is necessary for the success of their faculty, students and the school itself. That diversity is found in different races or religions, and also through different economic backgrounds. And that is when the task of financing an education for the lower and middle classes becomes complicated. The amount of players in the process rapidly increases when attempting to finance a degree for a student with demonstrated financial need.

When a student has high demonstrated financial need, it is likely that the family will have a small or zero expected contribution toward their child’s education. Even with no expected family contribution, there will still be incidental expenses and the financial aid process itself to be completed in order to obtain funding. For these students, the school will likely play an additional role if they offer an institutional scholarship. There are numerous other avenues of financing an education, as discussed in Chapter Two, and it is useful to comprehend that the more players involved in the process, the more difficult regulation and cost containment becomes. Students with demonstrated financial need may have involvement from their families, the school, federal government, state government, private scholarship foundations, and lenders of student loans. Although all of those potential contributors are all willing participants to make higher education a reality, they also create their own obstacles when it relates to cost containment.
With so many participants in financing higher education, it becomes easy to cast blame on others involved. It also becomes easiest to blame the institutions because they are the ones increasing their costs at a rate higher than inflation. This finger-pointing makes it difficult to stem the rising costs. Each participant must maximize their productive contribution to the process, instead of idly waiting for others to change their policies. According to Professors Laura Perna and Chunyan Li of the University of Pennsylvania, “institutional policymakers should act to control the cost of higher education; state governments should maximize appropriations to higher education institutions; and federal, state, and institutional policymakers should better target available resources to students and families with the greatest financial need.”

The authors aptly point out that institutions of higher education do not have the capability to alter incomes of or the personal expenses facing the families of their students. Administrators do have the ability to control the price of an education. Without state governments maximizing appropriations to institutions and the federal government properly exercising its influence over institutions, costs will continue to rise and the vicious cycle of finger-pointing will continue to hinder the affordability of higher education. In recent years, the role of the federal government in examining this issue has become more prevalent, as it attempts to assess the reasons of and solutions for the rising costs of higher education.

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In 2005, then Secretary of Education, Margaret Spellings, announced the creation of the Commission on the Future of Higher Education, which was charged to study the current status of higher education and make recommendations to improve access, affordability, quality and accountability. The eighteen member commission consisted of experts in higher education and education policy, as well as distinguished corporate leaders. Prior to the Commission’s work and the release of its report the following year, a series of issue papers were developed by experts to lay a potential foundation for the findings and recommendations put forth by the Commission. Professor Robert Dickeson, then the senior vice president for policy and organizational learning at the Lumina Foundation, produced an issue paper commenting on the costs of higher education. More specifically, Professor Dickeson identified the obvious and hidden cost catalysts, and offered suggestions to manage said costs. One of the major cost drivers is that colleges and universities are labor-intensive. Approximately 75 percent of the costs to run an institution of higher education are related to personnel expenses, including benefits, particularly rising healthcare costs.\footnote{Robert C. Dickeson, \textit{Issue Paper: Frequently Asked Questions About College Costs}, (Washington, DC: The Secretary of Education’s Commission on the Future of Higher Education, 2005), 1.} Faculty members are high cost due to salaries, research projects, required facilities and tenure. At some public institutions, the personnel are subject to state mandated expenses, thus removing the cost control of the college or university. An extension of the lack of cost control is when states require schools to utilize their own service agencies, which may not be the most cost effective.
Schools are also subject to fluctuating energy costs, and this is particularly detrimental at institutions that operate inefficiently.

Another cost factor is the regulations by which schools must abide. They are subject to federal, state, and local regulations. Federal regulations affect expenses regarding the administration of financial aid, admissions of foreign students, and conduct of research. State regulations may affect travel policies, educator certifications, and data reporting requirements. Local regulations encompass such issues as healthcare, food service, child care, housing, and police and fire protection. Due to funding and other types of assistance coming from all three levels of regulations, the schools are beholden to those entities to ensure that they are fulfilling the requirements and are not violating any law and/or regulation in their practices. This often results in redundant or overlapping work, which tends to be time-consuming and not cost effective.

Professor Dickeson’s issue paper stresses that institutions of higher education do not operate in a cost effective manner. Most of the costly infrastructure is not used to its full capacity. When programs are added, typically there are not corresponding cuts to current programs, which puts a tremendous constraint on the budget. Another inefficient cost concept that occurs is that colleges charge all students the same for programs, regardless of the actual cost of the administration of the course of study. The final two expensive ventures for institutions of higher education are intercollegiate athletics and the costs associated with internal mistakes, whether in or out of the court of law. While athletics generate revenue to off-set some of the costs of the programs, internal mistakes have a negative net effect on institutional spending.
Competition is costly for colleges and universities, and it is not restricted to attracting the best and brightest students. Schools also compete to obtain faculty members of the highest esteem in their particular field, and these professors are well aware of the power that yields when it comes to their salaries, research grants, and benefits. Schools may also seek specialized accreditation in certain fields, and that can prove to be quite costly in their attempt to become more enticing to both students and faculty. Competition is healthy when it breeds excellence and has tangible results. The problem with competition in higher education is that the goal of attracting students and faculty is often based upon reputation. The largest hindrance faced by administrators trying to increase their reputations is their funding sources. Colleges and universities receive the majority of their funding from various government entities, gifts, grants, contracts, auxiliary and endowment income, and tuition and fees. The one funding source that the universities can control is the tuition and fees. As monies fluctuate from the other sources, schools fill the funding gap by raising tuition and fees to ensure the product being put forth is attractive to both the students and faculty.

The demands of the student are quite costly for the school. As the number of students increase, so do the costs of meeting their need. Students are also selecting more fields of study that tend to be costlier. Professor Dickeson demonstrates this by comparing students who major in engineering versus speech. Students are 83 times more likely to select engineering as their field of study, and that program is much more costly.
to administer than its speech counterpart.\footnote{Robert C. Dickeson, \textit{Issue Paper: Frequently Asked Questions About College Costs}, 4.} As more students turn to the more costly majors, institutions must also attract students to the less costly fields to justify maintaining their existence. Additionally, students have come to expect state of the art facilities and amenities and in turn, the colleges and universities are providing them. Students arrive on campus with certain expectations of services and the schools are fulfilling those demands almost regardless of the initial cost.

The final cost driving factors outlined by Professor Dickeson may be some of the most detrimental for the students and their families. The willingness to pay for higher education sometimes surpasses the family’s true ability to pay. Some institutions may use this unfortunate reality as a justification to increase the costs. Schools that admit students who have limited potential for success may actually drive up their own costs dealing with the lack of academic progress and the resulting administrative burden. A reduction in the admissions standards increases the potential for academic failure. Schools also drive up their own costs by increasing the difficulty of accepting transfer credits from other institutions. When schools do not accept previous class credits, it costs the students to repeat the work, as well as any other entity who may be subsidizing the coursework. The most ethically tenuous cost driver is when schools use the revenue generated from tuition and fees toward expenses that are not directly related to the students’ education. Administrators may then become reliant on this funding source to finance other expenses, and they will not hesitate to maintain tuition increases to justify
their spending elsewhere. The stream of funding must remain constant, as the costs never seem to cease.

The cost drivers, as outlined by Professor Dickeson, have all acted as catalysts in the drastic increases over the past two decades. They prove to create a complicated environment for administrators of higher education. It is an environment more conducive to spending than constraint, and one in which the reputation of the school begins to outweigh the desire to maintain an affordable product for the education consumer. The increase in costs have left students and families with a difficult task of financing education, and the current financial aid system, intended to assist the student, is as vital as it is complicated.
CHAPTER TWO: FINANCIAL AID PROGRAMS AND HOW STUDENTS QUALIFY

Financial Aid Application Forms

As noted in the previous chapter, there are numerous avenues for students to explore that will assist in financing their education. These options require pro-active efforts by the student and their family to determine their eligibility for funding assistance. This assistance may come from the school itself, federal or state governments, scholarship foundations, and/or student loans. There are different applications for most of these funding sources, and this can be quite a daunting task for the student and their family. The primary application for federal funding is the Free Application for Federal Student Aid (FAFSA). Historically, this was a paper application that required the family and student financial information, predominantly from federal taxes, to determine the financial need of the family in comparison to the cost of attendance of the school. The FAFSA is now mostly completed on-line, and it is often criticized for being complicated, personally invasive and not all college students and their families are aware of its importance to receive need-based financial assistance. Additionally, many non-English speaking families encounter a language barrier when attempting to complete the FAFSA. For students seeking to receive need-based institutional assistance, they must go through the federal aid application first before eligibility is determined for any type of scholarship. Additionally, those students often need to complete supplemental and more detailed financial aid application forms. At colleges and universities offering merit-based
scholarships, the applicants may be able to bypass the need-based application process with institutional forms that are used to select funding eligibility based upon the skills and extracurricular activities of the student.

**Scholarship Programs**

Institutional assistance offered by the school typically comes in the form of a scholarship. There are two primary determinants for student eligibility to receive the free money offered by intuitions of higher education: financial need and merit. Many schools determine scholarships offered to students as a result of their academic and/or extracurricular activities. These merit-based funds are used as an enticement to attract students based upon their successes and the institution’s desires to create a dynamic student population. Conversely, numerous colleges and universities base their scholarship amount on the financial need of the family, regardless of the student’s academic or extracurricular prowess. According to U.S. News and World Report, 63 public and private college and universities meet the full financial need of their students.¹ At the schools that meet full financial need, they completely fill the potential gap between the cost of attendance budget and the family contribution with their own funding after all eligible federal assistance is incorporated into the financial aid package.

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schools that do not meet the full need, the students often need to seek out other resources, even after federal and institutional aid is offered, to fully finance their education.

Another resource for students to explore that assists in financing education is non-institutional scholarships. Many students receive scholarship funding from the state government. An example is the Robert C. Byrd Scholarship, a federally financed program that is administered by the state governments to assist academically strong students. Beyond the government-funded scholarships, students may also be eligible for funding from private entities. The private scholarship search process has become more simplified due to the electronic access of databases available online. The FastWeb scholarship search database, the largest of its kind, contains more than 1.5 million scholarships worth more than $3.4 billion. These types of outside funding sources are still underused by students due to the fact that they may not be aware of their existence or they may be overwhelmed by the application process for the individual scholarships. The institutions of higher education require assistance from secondary school administrators in conveying information pertaining to outside scholarships because it is often too late to apply by the time the student arrives at their college or university. A communication gap may cause students who would be eligible to receive a privately funded scholarship to not even be aware of the existence of the funds.

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The lack of awareness or confusion is not just evident in the scholarship application process. The need-based federal aid programs present an obstacle for many applicants as well. In May of 2008, Gallup, in conjunction with student loan leader SallieMae, conducted a survey by interviewing 684 college-attending students and 720 parents of college-aged students who were attending an institution of higher education in 2007-2008. The purpose of their research was to gather a nearly real-time impression of how families are financing higher education and to measure attitudes toward numerous concepts pertaining to paying for college. In this survey, Gallup and SallieMae found that one in four families did not even complete a FAFSA. The rate of completion of the FAFSA declined as income increased: 89 percent completion rate for those earning under $35,000 per year; 76 percent for those earning between $35,000 and $50,000; 73 percent for those earning between $50,000 and $100,000; 71 percent for those earning between $100,000 and $150,000; and 42 percent for those earning more than $150,000. These numbers illustrate the fact that many college-bound students are just not aware of their financial options. When these students were sent off to school in the fall of 2007, 11 percent of low-income families did not exhaust the availability of free federal grants. All of those students in the lowest income bracket and many others from the greater income brackets would have been eligible for some form of federal assistance had they completed the FAFSA. These numbers are the support that policymakers need for the pending provisions in the Higher Education Opportunity Act, which would simplify the

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federal financial aid application process. The hope of simplifying the FAFSA is that more eligible families will complete the application. Unfortunately, that will not directly increase awareness of the form’s significance to financing higher education. Secondary school and higher education administrators must continue to vocalize the importance of free federal funding through the FAFSA because they are the individuals who have the responsibility to inform the students that cost obstacles can be overcome.

**Federal Financial Aid Programs**

All of the federal student aid available, as a result of completing the FAFSA, is based upon the family’s financial need. The formula used to determine the financial need is called the federal methodology. The calculation looks at such factors on the FAFSA as self-reported income, assets, number of people in the household, and the number of family members in college. Once all the data have been put into the federal methodology calculation, a number is produced and that represents the expected family contribution (EFC). The EFC is the number that families are held responsible for contributing toward the student’s education. If they are unable to directly contribute those funds, there are other options available to them which will be discussed in greater detail in Chapter Four.

All of the FAFSA data, including the EFC, are now electronically transferred to the student’s selected universities to determine their eligibility for federal need-based assistance. The federal EFC number remains constant from school to school, although the eligibility of the student may vary amongst the different institutions of higher education. The reason for this variance is the different costs of attendance put forth by
each college or university and this can drastically affect the amount of assistance offered to the student.

For example: an incoming freshman student and his family complete the FAFSA for the 2008-2009 academic year. The calculated EFC is $48,000. The student has this information sent to two universities. At Georgetown University, the estimated total cost of attendance for an incoming student for the 2008-2009 academic year is $53,600.\(^5\) At the University of Maryland at College Park, the estimated total cost of attendance for an out-of-state undergraduate student is $36,234.\(^6\) The financial need of the student is determined by subtracting the EFC from the cost of attendance. At Georgetown University, the student has $5,600 worth of financial need, which may make them eligible for some federal assistance. At the University of Maryland, their EFC is greater than the cost of attendance, thus making the student ineligible for any type of need-based federal or institutional assistance.

With such differing eligibility from school to school, the financial need becomes a significant factor when students and families are selecting the most appropriate institution based upon their personal situation. The disparity between financial figures may often out-weigh the importance of such other issues as academics, geography, or the social environment of the school. Students are often forced toward or away from a particular institution due to financial factors before they may even consider other reasons that may shape their decision of where to attend.


Federal Grant Money

The federal need-based financial aid is broken down into two distinct categories. The first category is the free money from the government that comes in the form of a grant. There are up to four primary grants for which a student may be eligible: Federal Pell Grant, Federal Supplemental Education Opportunity Grant (FSEOG), the Academic Competitiveness Grant (ACG), and the National Science and Mathematics Access to Retain Talent Grant (National SMART Grant). In addition to demonstrated need, the amount received in the Pell Grant is determined by the school’s cost of attendance; the student’s enrollment status, whether part-time or full-time; and the length of the academic period in that particular award year. The maximum amount one may receive in Pell Grant for the 2008-2009 academic year was $4,731, and pending legislation is seeking to increase that amount for future years.\(^7\) The Pell Grant eligibility is also utilized to determine whether or not students may be eligible for other types of federal grants.

The FSEOG is awarded to students with the lowest expected family contributions. The award can range from $100 to $4,000, depending on the financial need of the family and the total amount of FSEOG given to the school by the federal government.\(^8\) To receive the ACG, the student must be a Pell Grant recipient, be enrolled full-time, have

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completed a rigorous secondary school program, and be in the first two years of their degree-seeking program. A first year student may receive up to $750 and a second year student may receive up to $1,300, provided that they achieve a 3.0 out of 4.0 grade point average in their first year of study. The ACG recipients do not receive the grant after their second year of higher education. For those third and fourth year students who are Pell Grant-eligible; enrolled full-time; achieve a 3.0 out of 4.0 grade point average in their second year of study; and are majoring in physical, life, or computer sciences, mathematics, technology, engineering, or a critical foreign language, they are eligible to receive the National SMART Grant. These particular students may receive up to $4,000 per year. While the Pell Grant and the FSEOG are primarily based upon the expected family contribution in comparison to costs, the ACG and National SMART Grant have more additional complicated academic requirements. The ACG and SMART Grants, which were first offered to students in the fall of 2006, were created from the vision of providing a financial incentive for students to maintain academic success, which the students would then carry forward into a field of study that will benefit the productivity of the nation.

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Federal Work-study Program

The second category of need-based support is often referred to as self-help funding. The students help contribute toward their own education either through the federal work-study program, the Federal Perkins Loan and/or the Federal Stafford Loan programs. The eligibility requirements, in addition to demonstrated financial need, and the maximum annual funding available for each program do vary. The first type of self-help financial aid is the work-study program, which allows for a student to obtain a job through their school, typically on-campus, and to earn up to a capped amount of money per academic year. That money is determined by the individual university and it is expected that the money earned is used toward the student’s education costs. Schools have an incentive to participate in the program because the government subsidizes a portion of all funds earned by work-study students, therefore costing schools less money to pay its student employees. The structure of the work-study program provides students with a level of responsibility and time management skills, as well as a consistent source of income during the academic year. One drawback to the work-study program is that it may cost families more money initially at the beginning of each semester because students have yet to earn their allotted funds. Additionally, students may never actually reach the total amount awarded to them, thus increasing the funds families must contribute toward the cost of attendance.
Federal Student Loan Programs

The second form of federal self-help funding is the student loan. The Higher Education Act of 1965, signed by President Lyndon B. Johnson, established the Educational Opportunity Grant Program, later re-named the Pell Grant, and the Guaranteed Student Loan Program, later re-named the Federal Stafford Loan Program. Prior to the Guaranteed Student Loan Program, the National Defense Act of 1958 established the National Defense Student Loan Program, which was later re-named the Federal Perkins Loan Program in the reauthorization of the Higher Education Act in 1986. The original and current intention of the Perkins Loan Program is to provide low-interest loans to the neediest students. What that financial need cut-off is and how much the students may receive is determined by the college or university, who also is the lender of the federal money. The interest rate is fixed at five percent for the lifetime of the loan and it is interest-free while the student is enrolled in school at least half-time. If they drop below half-time enrollment, leave school, or graduate from their program, they will then enter the nine-month grace period before beginning to re-pay the loan. Upon entering re-payment, the loan begins to accrue interest at the fixed rate of five percent until the loan is paid in full. The Perkins Loan offers enticing payment deferments, as well as partial and full loan cancellation incentives through such public service jobs as teaching in impoverished communities with a high need for educators. The Perkins Loan Program was created with a low-interest rate and attractive benefits because the recipients of the loan are of exceptional financial need. The current annual maximum of an
The undergraduate Perkins Loan award is $5,500 with the cumulative award not to exceed $27,500 for all undergraduate years. The funding for the current students is available through the loan re-payments of previous students. This is commonly referred to as a revolving loan program. Due to the reliance on previous borrowers to fund current students and the limited amount of funding increases put forth by the federal government, the Perkins Loan has diminished in its ability to assist all high-need students in financing their education.

The most common need-based student loan is the Federal Stafford Loan. The Stafford Loan Program was established in 1965 under the Federal Family Education Loan Program (FFELP) within the Higher Education Act. The FFEL Program created a public-private relationship between the federal government and student loan lenders. Within that relationship, the private lenders offer students federally guaranteed loan funds based upon the need of the student and the certification of those funds by a representative of the school determining said need. The federal government chose to privatize its student loans for two primary reasons: to reduce the administrative burden of the student loan process and to alleviate concerns over the federal budget. If the government was lending to students and did not use a private entity as a conduit to disburse the funds, the loans would be a loss on the budget in the year that they were disbursed and they would not reappear again until the loan was paid in full. By outsourcing various administrative loan responsibilities to lenders, servicers and guarantors, the government reduces the

spending it would incur to facilitate the student loan process directly. Mutually agreed upon subsidies paid by the federal government to the lenders became a financial burden for the government in recent years.

The privatized funding source is just one way the Stafford Loan differs from its Perkins counterpart. Similar to the Perkins Loan, the Stafford Loan interest rate has always been determined by Congress. The rate is not always fixed and may vary between fiscal years. The current rate for the 2009-2010 academic year is fixed at six percent for the subsidized Stafford Loan and 6.8 percent for the unsubsidized version. The all-time low interest rate for the Stafford Loan was 2.88 percent in 2005.¹² The enrollment requirements are the same for the Stafford Loan as the Perkins Loan, although it only carries a six-month grace period. Until 1992, the only loan in the FFEL Program for the undergraduate student was the subsidized Stafford Loan. The 1992 amendments added to the Higher Education Act provided a drastic shift in the federal loan programs. The first was the creation of the unsubsidized Stafford Loan, a non-need-based version of the subsidized loan. This loan was made available to students with no demonstrated financial need that still may feel that they require assistance with their finances. The unsubsidized Stafford Loan accrues interest from the moment of the disbursement and continues to do so until the loan is repaid in full. The second result of the 1992 Higher Education Act amendments was the establishment of the Direct Loan program. This brainchild of the Democratic Party was created in an attempt to reduce costs over the lifetime of the loan.

that the government was spending through the outsourcing and subsidies in the federally
guaranteed FFEL loans. In the Direct Loan program, the federal government lends the
student loan funds, instead of outsourcing the process. Those in support of Direct
Lending feel that the government subsidies paid to the private loan lenders are
unnecessary and that the federal government is capable of providing this service. What is
often overlooked when comparing the success of FFEL versus Direct Lending is the
lower loan default rates in FFEL due to the effective wellness activities of the loan
guarantors. Direct Lending has been in steady decline since the mid-1990s, and in 2007
it accounted for less than 20 percent of the total national student loan volume. 13
Although, recent legislation and the tightening of the credit markets due to the declining
economy have caused an increase in the amount of colleges and universities exiting
FFELP and participating in the Direct Loan program. The prospects of unstable private
lenders are a detraction for many institutions, and they are making the switch to Direct
Lending to ensure that there will be loans available for their students. Despite this
uncertainty, FFEL still remains the most utilized federal loan program at institutions of
higher education.

13 New America Foundation, “History of Federal Family Education Loans and Direct Student
Loans,” http://www.newamerica.net/programs/education_policy/student_loan_watch/history (accessed
April 25, 2009).
CHAPTER THREE: THE ROLE OF THE STAFFORD LOAN IN THE EXPANDING COST GAP

Growth of the Federal Stafford Loan Program

Since its inception as a result of the Higher Education Act of 1965, the primary goal of the FFEL Program was to provide students with low-interest loans to assist them with the cost of a degree of higher education. As with most of the federal education programs, the intention of the Stafford Loan is to provide opportunity to those students who could not afford to cover their educational costs with their own personal or family resources. This landmark piece of legislation has allowed for thousands of students every year for over 40 years to obtain their dream of furthering their education. Yet changes in the loan amounts have not kept pace with the needs of the student borrowers.

It takes an act of Congress to change the Stafford Loan annual and aggregate limits. Although the FFEL Program was enacted in 1965, the first annual subsidized Stafford Loans were offered as of July 2, 1967 in the amount of $1,500 for all years in school. On June 1, 1973, the freshman amount was reduced to $1,000, the sophomore amount remained at $1,500, and juniors and seniors became eligible to receive $2,500. As of May 20, 1977, Congress made every Stafford Loan borrower eligible to receive $2,500. That amount remained constant for nearly the next decade. On January 1, 1987, freshmen and sophomores were eligible to receive $2,625, while juniors and seniors could now receive $4,000. July 1, 1993 marked the beginning of the longest tenured loan amounts. Freshmen remained at $2,625, sophomores were raised to $3,500, and juniors
and seniors could receive $5,500. These amounts remained until July 1, 2007. At this
time, juniors and seniors remained at $5,500, while freshmen were raised to $3,500 and
sophomores could receive $4,500.\footnote{FinAid, “Historical Loan Limits,” http://www.finaid.org/loans/historicallimits.phtml (accessed March 12, 2009).} The subsidized loan amount increases over the years
display that Congress has deemed it necessary to augment loan amounts due to overall
cost growth of higher education. The larger escalation of the junior and senior loan
amounts illustrate that Congress determined that the further along the student in their
education, the more responsibility they should share in financing their degree.

Congress followed a similar pattern with the unsubsidized Stafford Loan.
However, due to this being a newer loan program, there has only been one change in the
amount since the interest-bearing loan program’s inception. From July 1, 1994 through
June 30, 2008, freshman were able to borrow up to $2,625 and sophomores were could
receive up to $3,500, while juniors and seniors were able to borrow up to $5,500. On
July 1, 2008, Congress increased the annual unsubsidized Stafford Loan amounts by
$2,000 per grade level.\footnote{FinAid, “History of Student Financial Aid,” http://www.finaid.org/educators/history.phtml (accessed March 8, 2009).} The creation of the unsubsidized Stafford Loan program is
indicative of Congress’s belief that financing an education was becoming an issue for
those students and families with limited or no financial need. The unsubsidized Stafford
Loan program does not act as a deterrent to rising costs nor does it have any other federal
financial aid counterparts because it is not need-based assistance. Students who are
eligible for an unsubsidized Stafford Loan likely will not receive any other funding from the government, and may only receive scholarships from outside entities or their institution, if they offer merit-based aid. At public institutions, the unsubsidized Stafford Loan may cover a larger portion of the overall cost of attendance. Unfortunately, the loan will barely make a dent at the private colleges and universities that have a cost of attendance that may exceed $50,000 per year. Many families opt not to take out the unsubsidized Stafford Loan at higher cost institutions because they have a much larger cost gap to fill and they want to reduce the amount of sources responsible for providing funds.

Congress also determines the aggregate loan limits that a student may borrow throughout their educational career. As expected, with every increase in annual loan limits, the aggregate limit has been properly adjusted to account for the new annual increases. The aggregate limits are in place to ensure that students do not over-borrow during their educational pursuits. The determined amounts were put into place as an effort to regulate the amount of the student’s indebtedness upon leaving their institution of higher education. This altruistic goal by Congress is admirable in its attempts to control the loan amounts that must be repaid. However, Congress falls short of helping the students when they are forced to seek out other avenues to combat the rising costs of education. This pattern of alternate means of finance exists for many students and families of varying financial need at all institutions of higher education.
Rising Costs versus Increases in Federal Loan Limits

The federal government plays a significant role in higher education, at both public and private institutions. From the FAFSA application to the various forms of federal financial aid, the government has the ability to assist eligible citizens of the United States in their quest for higher education. For the schools, the same federal regulations and requirements are applicable, whether it is a lower-cost state school or a higher-cost private institution. This poses a significant problem for students of all schools because there is an annual finite amount of eligibility of federal financial aid for those who qualify, regardless of the cost of the institution. The only federal financial aid program that is based upon the institutional cost of attendance, as well as other requirements, is the Pell Grant. Despite the considerable involvement of the federal government in higher education, there has been very little effective effort to contain the rising costs and the schools will likely continue to attempt to maintain their current autonomous status. Additionally, nearly every federal financial aid program is based upon the need of the family and it does nothing to stem the costs for those families of no financial need, or those middle-class families that are quickly being priced out of their desired institutions. In recent years the cost gap has risen exponentially, while the federal government has been conservative in their increases to the assistance that is intended to make higher education more affordable and obtainable. In regards to the grant money offered by the government, it is difficult for drastic increases in free funding for students to occur rapidly because that requires either an increase in revenue from another funding source or...
a decrease in cost of another government program. Where the federal government has always had more flexibility and freedom to increase annual aid amounts is in the Stafford Loan program. The Stafford Loan amounts in comparison to the cost of attendance increases over the last 20 years illustrate that the federal government has fallen short in making higher education an affordable reality for all eligible students.

As discussed in Chapter One, the increases in the costs of higher education have been significant over the past two decades. Private four-year institutions have witnessed an increase of 58 percent in the average cost of tuition and fees, room and board, while public four-year institutions have increased at an average rate of 73 percent. In that same time period, the cost differential between the two averages went from $13,374 in 1988-1989 to $19,799 in 2008-2009. Although the percentage increase was greater in the public colleges and universities, the cost gap between private and public schools is 48 percent greater in the 2008-2009 academic year than it was 20 years prior. These numbers are an obstacle for administrators who are approving the cost increases at a rate greater than inflation, as well as for those policy makers attempting to ensure accessibility to higher education.

It is those same policy makers who have approved the increases in the federal Stafford Loan since the program’s inception. Members of Congress have been mindful that the loan amounts need timely adjustments to maintain the program’s relevance in higher education. Yet it is becoming evident that the congressionally approved loan amounts have fallen short in closing the cost gap. In the 1988-1989 academic year, the subsidized Stafford Loan, for students with demonstrated financial need, accounted for
12 percent of the average cost at a four-year private institution for freshmen and sophomores and it covered 18 percent of the average cost for juniors and seniors. At the public institutions, freshmen and sophomores with demonstrated financial need had 32 percent of the average cost covered by the subsidized Stafford Loan, while juniors and seniors had 48 percent of the average cost subsidized by the Stafford Loan. In 1988-1989, the subsidized Stafford Loan significantly assisted students at public four-year institutions with their college costs. For the neediest students, the subsidized Stafford Loan, in conjunction with the Pell Grant, provided an opportunity to attend a public university at little or no cost. At the higher cost private institutions, the subsidized Stafford Loan reduced the cost gap, and also left a significant amount for which the institution and/or family was still responsible.

In 2008-2009, the average cost of a four-year public school was $14,333. For freshmen with demonstrated financial need, the subsidized Stafford Loan accounted for 24 percent of the costs, while sophomores had 31 percent of the average cost covered. For juniors and seniors, 38 percent of the cost was subsidized by the subsidized Stafford Loan. These numbers are reduced significantly from 20 years prior. This is a percentage loss for all four years: negative seven percent for freshmen, negative one percent for sophomores, and negative 10 percent for juniors and seniors. While costs drastically increased over a 20 year period at four-year public institutions at a rate of 73 percent, the subsidized Stafford Loan failed to live up to the intentions of the program, which makes college more affordable. During this period, higher education at public institutions was made more costly by the schools and the members of Congress. This puts a larger strain
on the institution due to an increase in the need for scholarship funding, and it also affects the families because they may need to seek out alternate means to cover the larger cost gap. Public universities, once viewed as a more financially viable back-up to the private institutions, are now becoming too expensive for the average American family.

At four-year private institutions, the average cost of attendance in 2008-2009 was $34,132. For freshmen with demonstrated financial need, the subsidized Stafford Loan accounted for 10 percent of the cost. For sophomores, 13 percent of the average cost was covered and for juniors and seniors, 16 percent was subsidized by the Stafford Loan. In comparison to 20 years prior, the subsidized Stafford Loan reduced in its net coverage of the average cost for all but one year in school. For sophomores, the subsidized Stafford Loan amount covered one percent more of the average cost. All three other years in school witnessed a reduction in the loan amount compared to their costs by two percent. With a 58 percent cost increase over a 20 year period, these Stafford Loan numbers again illustrate that Congress and higher education administrators are falling short in their quest to make college an affordability reality for those who are academically eligible and do not have the full capability to afford their degree. The students and families struggling to meet the expenses of higher education are forced to seek out alternate means of funding.
CHAPTER FOUR: ALTERNATE SOURCES OF FUNDING

The Rise of Direct-to-Consumer and Private Education Loans

The positive benefits of completing a degree of higher education are numerous and significant. Comprehending the importance of the degree’s connection to future successes in life starts years prior to the student stepping foot on to campus the first day of their freshmen year. Some families begin planning for college before their child is even born, while others blindly allow their child to apply to schools without much guidance. Parental involvement in the higher education process will vary from family to family. What is more of a common denominator is the concern over how they will be able to afford sending their children off to school. In a survey conducted by the American Council on Education, parents concluded that the second greatest worry after illegal drug use by their children was the cost of a college education. This concern was greater than their children being the victim of a crime, their healthcare, and the quality of public schools.¹ College cost is the type of issue that causes a great deal of stress for parents. To most people, personal finances are an extremely sensitive issue and that is perpetually intertwined with higher education affordability. It is an instinctual reaction for parents to be anxious about the future of their children because they have the responsibility of providing for them and the ability to forge the path which their life will

take. While parents can control their own finances and what funding they will have potentially available to put toward college, what they cannot control is the schools which may admit their children and what the costs are for those institutions. Parents make the commitment to provide the best opportunities for their children in the hopes that they will fulfill their end of the academic agreement, and that puts a tremendous amount of stress on the parents to live up to that financial obligation. As the costs rise, so does the stress and concern. Families are then left with three primary options: give up the dream of higher education, find an institution of reduced cost, or seek out alternate means to pay the bill every semester.

One of the most common solutions sought out by families in the past decade to pay the bill is the private education loan. There are two primary types of private education loans. One requires certification by the financial aid office at the college or university. The other is the direct-to-consumer loan. The direct-to-consumer loan proves to be a very risky loan for borrowers. This credit-based loan typically carries a high interest rate and greater loan fees, and it does not need to be certified by the financial aid office. The interest rate is variable for the lifetime of the loan and repayment does not begin until the student is out of school. This means that the cost of attendance and the financial need of the student are never verified. If the student passes the required credit check, the loan funds disburse directly to them without anyone regulating the potential debt of the student. Additionally, due to the manner in which the funds are given to the students, it is not possible for the Department of Education or any other entity to obtain a true grasp over how much of the student loan market is covered by direct-to-consumer
loans. In recent years, due to Congressional requests, the Federal Trade Commission began investigating direct-to-consumer lenders and their deceptive marketing practices. In 2008, Representative Charles Miller (D-CA) appropriately stated, “For too long, students have had virtually no protection from the confusing, misleading, and even predatory marketing materials used by many private lenders.” Many direct-to-consumer lenders altered their business practices in the wake of the Federal Trade Commission recommendations, and most failed to be able to continue their predatory lending as a result of the recent economic downturn. The non-school-certified loans have become too much of a financial risk and likely, and luckily, will remain stifled as long as the credit market remains unstable.

The school-certified private education loan for the better part of the last decade has grown in its share of the student loan market at an extraordinary rate. According to the College Board’s 2007 “Trends in Student Aid” report, school-certified private education loans between the 1996-1997 and 2006-2007 academic years had an increase of 894 percent over the 10 year period. During that same time period, the Federal Subsidized Stafford Loan increased its volume by only 15 percent. The private education loan witnessed such significant increases due to a strong economy combined

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3 Sandy Baum and Patricia Steele, Trends in Student Aid (Washington, DC: The College Board, 2007), 9.
with the rising costs of higher education. The prosperous credit markets were making the loans available and the consumers were in need. Despite the variable rates on the loans, many students opted for the private education loan because of the attractive in-school deferment. Borrowers also receive a better interest rate if they obtain a credit-worthy co-signer to join the responsibility of signing the loan with them. This type of credit-based loan is certified by the school for up to the cost of attendance minus any other financial aid. Many students, whose parents refuse to contribute toward their education, gravitate toward this loan because it is in the student’s name and removes the parental responsibility. The private education loan is also the only loan option for international students, provided they have a United States citizen as a co-signer on the loan. While the Department of Education tracks loan default rates on its federal loans, the private education loans are not held to that same strict standard. These may be high-risk borrowers with exorbitant loan amounts who may not be in stable financial conditions during their time in college and upon graduation. Despite the required credit approval and the certified loan amounts by a financial aid official at the college or university, the private education loan borrowers are at high risk for over-borrowing and not being able to meet the minimum payment requirements once they enter into repayment. Particularly at high-cost institutions, it is possible for the total amount borrowed by a student to actually exceed the worth of their diploma. If they are unable to earn a high enough salary to cover their cost of living and loan payments, it may have been a disservice for that student to utilize private loans to finance their education. For many students, the private loan has been a successful supplement to finance their education, and yet numerous other
students still rely on various forms of parental contributions to assist in paying for the cost of attendance.

**Federal Parent PLUS Loan**

The Federal Parent PLUS Loan is the only federal loan available to parents to help assist their children pay for their degree of higher education. The program, originally created with the 1980 reauthorization of the Higher Education Act, is an acronym for which PLUS stands for Parent Loan for Undergraduate Students.\(^4\) This loan borrows elements from other federal loan programs, as well as the private education loan, to create a viable product for parent borrowers. Similar to other federal loans, the Parent PLUS Loan has a fixed interest rate, loans disbursed on or after July 1, 2006 are fixed at 7.9 percent in the Direct Loan Program and 8.5 percent in the FFEL Program, and there are up to four percent fees associated with the loan to maintain the goal of low default rates and reduce the overall cost of administering the loans. Comparable to the private education loan, the Parent PLUS Loan requires that the borrower be credit-worthy, the loan must be certified by a representative of the institution’s financial aid office, and the parent may borrow up to the total cost of attendance minus all financial aid.\(^5\) The repayment options for the Parent PLUS Loan are a combination of the other loan types.


From the loan program’s inception in 1980 until 2008, parents began repayment of the loan within 60 days of the final disbursement of the loan and it carried a standard 10 year repayment plan. Although the Parent PLUS Loan was helping alleviate the initial cost of the semester bill, the parent borrower was not able to defer their payments while their child was in school. In 2008, the Ensuring Continued Access to Student Loans Act was passed by Congress and it provided the parent borrower with the option to defer PLUS Loan payments while their child remained enrolled in school and for six months after completing their program.  

This new provision in the Parent PLUS Loan program strengthened the viability of the federal loan in a time when parents are feeling the escalating burden of higher education costs and the negative effects of a struggling economy.

The deferment provision was an important and necessary adjustment to the Parent PLUS Loan program because the intention is to maintain, and hopefully increase, borrower levels through tough economic times. Although parent borrowers still need to pass the credit check, a reduction in Parent PLUS Loan activity would likely signify an increase in private education loan activity. If parents cannot obtain the necessary loan, then it becomes the burden of the student to become the primary borrower to finance the degree of higher education. It is evident that the fixed interest rate and benefits in the Parent PLUS Loan program are better than those in the private education loan program.

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This means that the PLUS Loan will cost the family less over the lifetime of the loan, likely even if the parent opts for the new in-school payment deferment.

Between the 1996-1997 and the 2006-2007 academic years, the growth of the Parent PLUS Loan program pales into comparison to 854 percent increase of the private education loan. During that decade, the Parent PLUS Loan did increase at a rate of 166 percent. It was the largest growing federal loan program during that timeframe. This is largely due to smaller annual loan limits placed on the other federal programs that are not applicable in the Parent PLUS Loan program. The annual loan limit on the Federal Parent PLUS Loan is imposed by the institution of higher education, not the federal government. In the 1996-1997 academic year data in the College Board’s 2007 “Trends in Student Aid” report, the subsidized and unsubsidized Stafford Loan programs were out-producing the Parent PLUS Loan programs at over a seven to one ratio. During the last year of data from 2006-2007, the Parent PLUS Loan cut that number nearly in half.\(^7\)

Escalating costs at institutions translated into greater need for loans for students and parents, which then led to the increase in the volume in the Parent PLUS Loan program.

The creation of the PLUS Loan was vital for maintaining access to higher education in the face of rising costs. It provides a realistic option for families struggling to cover their estimated family contribution or any unmet financial need not being provided by potential institutional and other federal assistance. This federal program recognizes that higher education is an investment for the entire family, not one that

\(^7\) Sandy Baum and Patricia Steele, *Trends in Student Aid*, 9.
should be the sole responsibility of the teenager embarking on a new chapter in their life. It offers a stable option that allows the family to map out their financial responsibilities for years to come. The model of this federal loan program was so successful that in 2005 Congress created a mirror program for graduate and professional students to reduce the amount of those students relying upon the private education loan. This was especially important for graduate and professional students because most finance their entire program with student loans due to limited scholarship funding and no available federal grant money. Despite the overall success of the Parent PLUS Loan program, many parents have opted for other avenues of financing their child’s education.

**Other Parental Sources of Financing Higher Education**

The Parent PLUS Loan may not be a viable option for all parents. Some applicants may not pass the required credit criteria, while others may not be a United States citizen, or they may just have an aversion to taking out loans to help finance their child’s degree. The quickly accumulating debt for a parent relying heavily on the PLUS Loan may be very ominous and overwhelming. Some parents may simply just not realize that the option of the PLUS Loan exists for them or how they can best utilize it. Other forms of financing available to many families include their current income and savings, college savings plans, retirement accounts, home equity loans, credit cards, and other investments. Most of those sources fluctuate in their strength with the economy, while the Parent PLUS Loan program is constant in its cost and its ability to assist families.
Despite the stability and growth of the PLUS Loan program, families are still more often seeking out other ways of financing higher education.

It is much easier to track the utilization of the school-certified private and federal education loans because the schools verify the proper amounts being disbursed to the student account and it is their responsibility to ensure that the student is not over-awarded. Schools have access to the borrowing data for all of their students, lenders have access to the borrowing data of their customers, and the Department of Education has access to the borrowing data for all federal student loans. The data that are not easily available or discernable are regarding the other sources utilized by families to cover the costs of higher education. The Gallup/SallieMae survey, “How America Pays for College”, provides some groundbreaking insight into how current families are piecing together the bill at the beginning of each semester. Even with the growing numbers of Parent PLUS Loan borrowers nationally, only six percent of the families questioned utilized that loan option. This number was less than the nine percent of parents who sought out other types of education-related loans to help with the costs. Three percent of the families surveyed opted to use home equity loans and the same number used their credit cards. Overall, only 16 percent of parents utilized a borrowed source, in comparison to 39 percent of students who borrowed through a student loan or a credit card.\(^8\) With the collapse of the housing industry, the home equity loan as a finance source

\(^8\) *How America Pays for College: Sallie Mae’s National Study of College Students and Parents*, 13.
source will become less common and more families may opt against using their credit cards as interest rates remain high.

Families surveyed in the Gallup/SallieMae report utilized non-borrowed sources at a much higher rate. Overall, 72 percent of families used funding from a non-borrowed source. That included 49 percent of parents and 34 percent of students. Parents used their current income at a rate of 38 percent and their personal savings at 12 percent. College savings plans were used in nine percent of the surveyed families with only three percent using a retirement savings withdrawal. Those families who indicated that they used non-borrowed sources did so at an average amount less than most of the borrowed sources amounts. Families who are choosing to use borrowed sources, such as loans and credit cards, are likely doing so because they do not have the non-borrowed resources to cover their estimated family contribution or any potential remaining unmet financial need. As families rely more on their non-borrowed sources begin to reduce their personal amount of capital, they may need to then seek out borrowed sources to bridge the gap. The personal amount of capital is affected by family expenditures, as well as the rising cost of higher education. As schools expect families to contribute more toward higher education, they will slowly be forced to become borrowers as their personal resources decline. Higher education is a system that now functions out of debt. It requires its consumers to accept that fate in order to achieve their goals. For most families who cannot write the check at the beginning of every semester, they have the three previously

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mentioned choices: borrow an overwhelming amount of money; go to a lower cost school that may not provide them with the desired academic rigor; or simply, just do not attend an institution of higher education. All three of those options seem to be counterintuitive to the overall goal of improving the individual and society through education. The problems of access, retention, and opportunity, in conjunction with rising costs, cannot be ignored. The large numbers of various stakeholders create great obstacles to overcome in order for positive change to occur.
CHAPTER FIVE: PROPOSALS TO INCREASE ACCESS, RETENTION, AND AFFORDABILITY

The issues of higher education access, retention, and affordability are expanding significantly. If they are not properly comprehended and dealt with, a slow erosion of the higher education system will occur and spread negatively through society. Evidence of the gravity of these issues appears in the work of politicians, economists and higher education experts. Similar to the various cost drivers of higher education, there are various theories regarding how to stem the problems of access, retention, and affordability. There is not one simple solution to the higher education problem. Rather, a combination of ideas must be analyzed and potentially implemented to maintain the ability for the average American to fulfill their goal of obtaining a degree of higher education. Various stakeholders approach the higher education cost issue from diverse perspectives, thus shading their beliefs toward a solution differently. Now that the higher education cost problem is being analyzed and understood by those who have the ability to instigate and implement change, they must fulfill that obligation and prevent any further damage to a system created to benefit society.

The Rethinking Student Aid Study Group

The Rethinking Student Aid Study Group, organized by the College Board, released a report in September 2008 entitled “Fulfilling the Commitment: Recommendations for Reforming Federal Student Aid”. This group, led by co-chairs Sandy Baum, professor of economics at Skidmore College and senior policy analyst at
the College Board, and Michael McPherson, president of the Spencer Foundation, a private organization that is “committed to supporting high-quality investigation of education through its research programs and to strengthening and renewing the educational research community through its fellowship and training programs and related activities”, believes that the complex federal financial aid system must be restructured to increase access and retention for low and moderate income students.¹ The work put forth by the Rethinking Student Aid Study Group is as complex as it is thought-provoking. It delves into every aspect of the federal financial aid process. For the purpose of this analysis, the focus will be on its recommendations for the federal student loan programs.

The Rethinking Student Aid Study Group believes that a more effective student loan system should be based on the following three principles:

1) The distribution of subsidies to students should be based primarily on financial circumstances after college rather than on student and/or family resources before college.
2) Students should be assured that their loan repayment obligations will not exceed a specified percentage of their incomes.
3) Loan limits should be high enough to prevent excessive reliance on alternative loans with less favorable terms and without the borrower protections provided by the federal government. Higher loan limits can also obviate the need for multiple federal loan programs.²

All three of these principles strengthen the federal student loan program, and have a positive effect on student access and success. In the current federal student loan model,

² Rethinking Student Aid Study Group, Fulfilling the Commitment: Recommendations for Reforming Federal Student Aid (Washington, DC: The College Board, 2008), 17.
students with demonstrated financial need receive the subsidized, interest-free, Stafford Loan while enrolled at least half-time in their program, and those without financial need receive the unsubsidized, or interest-bearing, Stafford Loan. The Rethinking Student Aid Study Group believes that the focus must be placed upon the total loan debt upon repayment and the ability of one to make monthly loan payments. Whether or not a loan is interest-free, it does not have an affect on a student’s decision to enroll as they are more concerned with the loan amount for which they are eligible. The loan is a means to an end, and the student will encounter the debt upon repayment. The proposal to move the interest to the repayment portion of the loan will only positively affect those individuals struggling to make payments upon graduation. If a borrower has a low-paying job and no personal resources, they should be eligible for an interest subsidy, while their wealthier counterparts can afford to make principle and interest payments. This also provides the borrower with a greater understanding of their actual debt upon repayment because at that point it is strictly based upon the total principle amount borrowed.

In conjunction with the concept of moving the interest subsidies into repayment, the Rethinking Student Aid Study Group also supports the concept of Income-Based Repayment (IBR), which was effective as of July 1, 2009. This new plan states that “no payments will be due if the borrower’s income (combined with the borrower’s spouse’s income if applicable) does not exceed 150 percent of the poverty line for the relevant family size. The payment due will be no more than 15 percent of the amount by which
The IBR plan will have positive results for those struggling to make their monthly loan payments. It is a plan that will help retain students, as they will have a better understanding of how to manage their debt, and it provides greater options to those who feel that they cannot afford to further their education. As with every program available to assist students, they must be aware of its existence and how to most effectively utilize it.

The third recommendation by the Rethinking Student Aid Study Group is to increase loan limits. As discussed earlier, there is a tremendous gap between the federal loan limits and the cost of higher education, and this gap only continues to expand. The group recognizes the increase in private education loan volume, as well as credit cards, to finance the cost gap, and it believes that the federal government has the ability to reduce those high-interest types of debt. “The Rethinking Student Aid Study Group recommends that full-time students be eligible to borrow up to the amount of the federal poverty guideline for a single individual for each year of study. This amount was $10,210 in 2007.”

That figure is nearly twice the maximum that an eligible student was able to borrow in 2007 under the current student loan model. Although this increases the federal loan debt, it provides the opportunity to reduce other debt that will cost the borrower more in the long-term. Additionally, the group recommends that the annual

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3 Rethinking Student Aid Study Group, *Fulfilling the Commitment: Recommendations for Reforming Federal Student Aid*, 18.

4 Rethinking Student Aid Study Group, *Fulfilling the Commitment: Recommendations for Reforming Federal Student Aid*, 19.
eligibility be carried forward into future years if they do not maximize their eligibility in one particular academic year. This line of credit for each borrower will assist them in portioning out their debt and better manage the financing of their degree. The Rethinking Student Aid Study Group states that these recommendations will eliminate a potential link between federal loan limits and tuition prices. By correlating the loan limits and the poverty level, it prevents Congress from making reactionary adjustments to loan limits based upon cost increases and it may stem costs because it will provide a more constant figure with which higher education administrators can work.

**The Lumina Foundation**

The Lumina Foundation, a private organization whose mission is to expand access to postsecondary education, believes that conquering the access and retention issues cannot be accomplished strictly through revamping the federal financial aid system. In a policy brief entitled, “Collision Course: Rising college costs threaten America’s future and require shared solutions,” six entities are identified as those who must be involved in the restructuring of America’s higher education system: college and universities, state governments, the federal government, students and families, secondary schools, and the private sector. The advice offered by the Lumina Foundation for the latter three entities

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5 Rethinking Student Aid Study Group, *Fulfilling the Commitment: Recommendations for Reforming Federal Student Aid*, 19.

is predictable. The main focuses pertain to staying informed, performing quality research about funding options, starting the college financing process early, and expanding resources and involvement.

The Lumina Foundation’s recommendations for college and universities are naïve, as their focus is for schools to halt the practices that have contributed to rising costs and allowed for poor monetary oversight. Such proposals as “…working assiduously to cut costs while maintaining quality…reallocating existing resources from lower to higher priorities…increase revenues from fund raising, auxiliary enterprise income, and other non-student sources…limit tuition increases to reflect justifiable growth in direct educational expenses” are only effective if colleges and universities are forced into such practices. There is no regulatory body to enforce those types of drastic fiscal changes, so no college or university will volunteer to be the trendsetter as their competition continues to draw the best students and professors. These suggestions are wise in theory and impractical in application. The Lumina Foundation’s suggestions to the remaining two entities have the greatest potential for success.

The recommendations put forth regarding the roles of the federal and state governments have great validity. The role of the state government in higher education has reduced over the last two decades and the Lumina Foundation believes that this trend must be reversed. States have the ability to establish or expand grant aid programs,

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7 Robert C. Dickeson, *Collision Course: Rising College Costs Threaten America’s Future and Required Shared Solutions*, 4.
provide budgetary incentives to colleges for graduating students, supply resources to colleges and universities, and help bridge the communication gap between the federal government, schools, and the student. Increasing the involvement of state governments in the higher education process will only increase the effectiveness of higher education, particularly at the public institutions. The federal government can assist higher education by increasing the purchasing power of the Pell Grant; revamping the inefficiently operated federal financial aid regulatory system; eliminating the confusing FAFSA and replacing it with a system linked to Internal Revenue Service tax data; easing anti-trust regulations to allow schools to work in unison to alleviate price competition and reduce tuition-discounting practices; and adjust federal tax restrictions on colleges and universities. The recommendations for the state government level are more easily attainable than those on the federal level. The proposed federal changes require massive overhaul, which would potentially result in drastic improvements to the affordability issue.

The Advisory Committee on Student Financial Assistance

The Lumina Foundation and the College Board are not the only entities to recognize that the federal government needs to alter its role in higher education. The

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8 Robert C. Dickeson, *Collision Course: Rising College Costs Threaten America’s Future and Required Shared Solutions*, 5.

federal government itself has acknowledged that change is required to improve the higher education system. Government oversight of its own practices and policies is essential to the overall effectiveness of a democracy, although recognition of detrimental trends and implementing solutions is often slow-moving. The cost of higher education in the last two decades escalated so quickly that federal policies to combat the issue are now beginning to witness traction in Congress. As with any policy issue, it must be researched and understood before any potential change is implemented. In the spring of 1999, the Advisory Committee on Student Financial Assistance, comprised of higher education administrators and experts, was created by Congress under the guidance of Senator James Jeffords, then Republican from Vermont, to provide the Secretary of Education and Congress with recommendations for improving access to higher education. Two years later, the Advisory Committee submitted a report to Congress entitled: “Access Denied: Restoring the Nation’s Commitment to Equal Educational Opportunity”. In summation, the committee found “that low-income students’ access to college, especially four-year colleges and universities, is limited by high levels of unmet need, and that increasing numbers of low-income students arriving on the nation’s campuses over this decade will exacerbate this problem.”\(^\text{10}\) A congressionally commissioned committee produced a clearly stated problem and provided viable solutions through a four-pronged approach, and yet the problem of access remains a decade after the

\(^{10}\) Advisory Committee on Student Financial Assistance, Access Denied: Restoring the Nation’s Commitment to Equal Educational Opportunity (Advisory Committee on Student Financial Assistance: Washington, DC, 2001), cover letter.
committee’s inception. The Advisory Committee on Student Financial Assistance put forth the following recommendations:

1) The nation’s longstanding access goal must be reinstated and federal student aid policy refocused on dramatically reducing current levels of unmet need.
2) Need-based grant aid must be increased for low-income students by reversing the current policy focus on middle-income affordability and merit.
3) The Title IV programs – number, structure, effectiveness – must be reaffirmed as the nation’s long-term solution to solving the access problem.
4) Access partnerships between the federal government, states, and institutions, must be rebuilt to leverage and target aid on low-income students.\textsuperscript{11}

All four recommendations are vital to maintaining the strength and effectiveness of the higher education system, and they are well-aligned with the perspectives of the previously discussed College Board and the Lumina Foundation reports. Access and affordability are significant obstacles for lower-income students and families. The Advisory Committee on Student Financial Assistance recognizes this issue and solutions for the lower income families are pervasive through their four-pronged approach. Reducing unmet financial need makes college a more affordable reality for lower income families because they do not need to consistently rely on alternative, and often costly, means of bridging the cost gap. Increasing need-based institutional grant aid for the lower income students provides them with more resources with which they may put toward the cost of higher education. Need-based federal grant aid is a type of Title IV funding, along with federal loans and the work-study program, and the Advisory Committee on Student Financial Assistance recognizes the importance of improving

\textsuperscript{11} Advisory Committee on Student Financial Assistance, \textit{Access Denied: Restoring the Nation’s Commitment to Equal Educational Opportunity}, 17.
those programs to keep lower income students returning to school every academic year. Their final suggestion of improving partnerships between the federal government, states and institutions is extremely vital and most commonly shared with other organizations seeking change in higher education. A pervasive theme amongst various groups analyzing the issues hindering higher education illustrates that it is a problem that must be resolved. Fractured relationships between the federal government, states and institutions will only exacerbate the issues of access, retention and affordability.

Where the Advisory Committee on Student Financial Assistance fails in its recommendations is in its categorization of the middle class. The committee in their second recommendation claims that there is a policy in place that awards the middle class and seeks to make college more affordable for those students through their merit. This may have been the reality in the late 1990s. However, in the decade since the creation of the committee, middle class families are starting to witness similar struggles in higher education aspirations as lower income families. It is evident that the middle class has greater financial resources than the lower class. Yet escalating costs are now affecting those students’ ability to attend their desired schools. Middle income students will only have what the Advisory Committee on Student Financial Assistance considers greater access due to their financial resources as long as the cost of higher education remains at a level affordable to those families. As costs increase at a rate greater than inflation and grant aid becomes limited in relation to need, the middle class is starting to struggle in the same way that the lower income families have for decades. College affordability, which correlates to retention and graduation, is a pervasive and complex problem that is
negatively affecting an increasing amount of Americans on an annual basis. As the problem has grown in its severity and more entities have had time to analyze causes and effects, more coherent and cohesive reports have been produced.

**The Commission on the Future of Higher Education**

One of the most current and valuable research projects, complete with policy suggestions, put forth by the federal government is entitled “A Test of Leadership: Charting the Future of U.S. Higher Education”. This 2006 report produced by the Commission on the Future of Higher Education, led by then Secretary of Education Margaret Spellings, is thorough in its assessments, critiques, and recommendations for the American higher education system. The findings of the Spellings Commission, as it is more commonly referred, approach change through issues that are more global to higher education, and then delve into the finer details to accomplish their recommendations. The Commission’s first recommendation is that “every student in the nation should have the opportunity to pursue postsecondary education…that the U.S. commit to an unprecedented effort to expand higher education access and success by improving student preparation and persistence, addressing nonacademic barriers and providing significant increases in aid to low-income students.”

These are the same sentiments expressed by the Lumina Foundation and the Advisory Committee on Student

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Financial Assistance. By increasing student productivity in secondary schools, educating parents early on regarding financing college, and making the states more involved and accountable for the students they educate, higher education will become a more attainable reality for those facing access obstacles.

Inextricably connected to the access issue is the financial aid component. Having access to higher education is vital but rendered useless, if one does not have the financial capacity to enroll and remain in school through the completion of their program. “To address the escalating cost of a college education and the fiscal realities affecting government’s ability to finance higher education in the long run, we recommend that the entire student financial aid system be restructured and new incentives put in place to improve the measurement and management of costs and institutional productivity.”

The recommendations of the Commission seek to increase enrollment, retention, graduation rates, reduce loan debt, and eliminate incentives that result in tuition inflation. The first three fiscal goals were some of the driving forces behind the Higher Education Act of 1965, while the latter two have grown immensely in the last 20 years. They are massive financial issues that plague students and their families, as well as higher education administrators, and politicians. The Spellings Commission seeks to combat them through simplifying the FAFSA; providing early estimates of available financial aid, possibly as early as eighth grade; better treatment of transfer students; consolidation of the numerous federal grant programs into one stronger Pell Grant program; and

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streamlining the costly financial aid regulatory process.\textsuperscript{14} Although large in scope, these suggestions provide demonstrated effectiveness toward restructuring the federal financial aid system and are feasible in their application, as evidenced by the recent simplification of the FAFSA form. The federal government is heeding the advice of the Spellings Commission, and they are not the only entity which must contribute to the revamping of higher education.

The Spellings Commission recognizes that policymakers and institutions of higher education must also share in the responsibility of stemming costs and improving productivity on college campuses. The Commission calls for more transparency in costs faced by schools and consumers of education; improvement of institutional cost management through the development of benchmarks; reduction in barriers faced by transfer students; states to provide incentives to institutions demonstrating cost and access improvements; promotion of lower-cost technology that does not reduce the quality of education; and the streamlining of costly state and federal regulations.\textsuperscript{15} These are all reasonable suggestions, yet they will prove to be difficult to implement due to the various parties that must agree to significant changes in their current practices. The Commission is asking the federal and state governments to work in unison with the institutions in the hope of creating positive changes for students and their families.

\textsuperscript{14} Commission Appointed by Secretary of Education Margaret Spellings, \textit{A Test of Leadership: Charting the Future of U.S. Higher Education}, 19-20.

\textsuperscript{15} Commission Appointed by Secretary of Education Margaret Spellings, \textit{A Test of Leadership: Charting the Future of U.S. Higher Education}, 20-21.
Surprisingly despite the focus on rising costs, the Commission does not support controlling the cost of higher education. It does not agree with establishing any type of fiscal cap on the costs that are determined by higher education administrators. The Commission does feel that costs can be better aligned with fiscal standards faced by the American family. It offers the example that the increase in tuition should not exceed the growth in median family income over a five-year period.\textsuperscript{16} This solution provides transparency to how the school reaches its annual increase and it provides the school with some flexibility with which to determine that amount. These suggestions require a shift in the philosophy of higher education, and the Spellings Commission feels that even greater change is necessary.

The Commission not only desires to increase transparency related to higher education costs, it also seeks to improve the overall performance of the institutions and their students. It recommends that a clear and accessible database be created and maintained by the Department of Education. This portal allows for the education consumer to easily compare information regarding cost, price, admissions data, college completion rates, and learning outcomes.\textsuperscript{17} This type of information made available by the schools and third-party organizations shifts the focus of competition amongst institutions of higher education from reputation to performance. The current competitive

\textsuperscript{16} Commission Appointed by Secretary of Education Margaret Spellings, \textit{A Test of Leadership: Charting the Future of U.S. Higher Education}, 20.

\textsuperscript{17} Commission Appointed by Secretary of Education Margaret Spellings, \textit{A Test of Leadership: Charting the Future of U.S. Higher Education}, 22.
system is driven by the seeking out of an intangible reputation, which can never be too
great in comparison to other schools. A database with accurate information that defines
and displays tangible numbers creates a competitive system with boundaries that forces
all members of the school community to be accountable for the information overseen by
the Department of Education. Unlike the fiscal changes offered by the Lumina
Foundation, it is feasible for this type of database to be welcomed by institutions of
higher education. The Department of Education regulates the data, not the schools. The
schools would self-regulate in comparison to the activities and information of their
competition. Fiscal and educational changes would be borne out of the desire to ensure a
proper reputation from the numbers, not the mandates of a regulatory body. Academia is
often an environment resistant to internal transformation, and a database, such as
proposed by the Spellings Commission, provides the impetus to improve the tarnished
system of higher education.

The four reports detailed in this chapter all maintain that access, retention, and
affordability are at the forefront of issues facing higher education, and that they are issues
that must be properly comprehended prior to seeking out successful resolutions. The
reports differ on which problem takes precedence and their subsequent proposed
solutions. Similar to the varying perspectives on the causes of the rising cost of higher
education, there is not one clear answer to the question of how to fix a damaged higher
education system. For the various stakeholders, different solutions are more appealing.
The Rethinking Student Aid Study Group focused on financial aid as the solution, and
proposed viable alterations to the federal student loan program. The College Board
sponsored this report, and they are an organization with great involvement in the higher education financial aid process. The Lumina Foundation produced a report with its most viable solutions for state and federal governments. They are a private organization wrought with policy experts, thus it is evident that they have solid recommendations for the government involvement in higher education. The Advisory Committee on Student Financial Assistance, commissioned by Congress, focused on federal government activity and federal government financial aid programs, which barely strays from their areas of expertise. The Spellings Commission departed from previous reports that recommended not altering the status quo or ones that produced ideas narrow in spectrum with recommendations so drastic that they could never be implemented. Instead, the Spellings Commission created a well-researched report that contains feasible recommendations that will benefit the higher education system through increasing access, retention, and affordability. Various stakeholders are now tasked with implementing improvements that have been outlined in the Spellings Commission report, although that does not guarantee that they will fulfill that obligation or that the recommendations will be successful. The report has succeeded in broadening the dialogue pertaining to higher education access, retention, and affordability.
CHAPTER SIX: THE VALUE OF MAKING HIGHER EDUCATION AN AFFORDABLE REALITY

In a very few moments, I will put my signature on the Higher Education Act of 1965. The President's signature upon this legislation passed by this Congress will swing open a new door for the young people of America. For them, and for this entire land of ours, it is the most important door that will ever open--the door to education.

And this legislation is the key which unlocks it.

To thousands of young men and women, this act means the path of knowledge is open to all that have the determination to walk it.

It means a way to deeper personal fulfillment, greater personal productivity, and increased personal reward. This bill, which I will make law, is an incentive to stay in school.

It means that a high school senior anywhere in this great land of ours can apply to any college or any university in any of the 50 States and not be turned away because his family is poor.¹

The preceding remarks were made by President Lyndon B. Johnson on November 8, 1965 at Southwest Texas State College at the signing of the Higher Education Act. This landmark legislation, one of many social reforms signed by the 36th president, contained ambitious and successful higher education programs. The social reforms enacted under President Johnson sought to reduce poverty and racism, and create an environment in the United States more commonly referred to as the “Great Society”. As evidenced by the words of former President Johnson, the path to improving the society as

a whole begins with the improvement of the self. It is only then that one can properly contribute toward the ideology of the Great Society. The values associated with higher education are vast and intricate, and play a vital social role to the millions of stakeholders.

It is easy to simplify the list of stakeholders in higher education by stating that everyone in the United States plays some sort of role. While it is true that everyone in the country is either directly or indirectly affected by higher education, it is helpful to dissect the subsets of stakeholders even further. The two groups that wield the most power over institutions of higher education are politicians and school administrators. The influence of politicians, who control regulations and program funding, is evident with legislation. Moreover, they have a vested interest in providing their constituents with the opportunity for higher education. An educated populace is vital to ensure their participation in a democratic government. School administrators control such important aspects of higher education as the cost, admissions standards, and the day-to-day operations of the school. This edge gives administrators the power to determine their student population through a variety of means, and it allows them the freedom to seek out the attainment of the highly important and subjective reputation amongst its peer institutions. The largest group of stakeholders is the students. They are the product consumers, and their higher education experience is determined by politicians and administrators. Without students, the higher education marketplace would collapse. Therefore it is necessary for politicians and administrators to maintain a desirable and accessible product. If higher education becomes an unattainable reality, the other
stakeholders will be drastically affected. Those positions in the workplace that require a
degree of higher education, and especially those which necessitate an even more
specialized degree, such as doctors and lawyers, may not be filled by well-trained and
experienced employees. This drastic shift amongst the positions which currently require
higher education degrees will have an impact upon those working beneath them, and will
produce an overall negative output for the economy and society as a whole. Not every
American is directly concerned with their own access to higher education. However, the
indirect influence over their lives immeasurable.

The two values commonly associated with higher education are access and
opportunity. These two concepts are inextricably connected and yet remain different in
their influence over higher education. Their importance is evident in the titles of recent
federal legislation: the College Cost Reduction and Access Act of 2007 and the Higher
Education Opportunity Act of 2008, which reauthorized the Higher Education Act of
1965. Access to higher education is an issue of great importance and has become the
rallying cry for many politicians. The data that exist on college access may be deceiving
and not always provide clarity to a situation that requires great understanding by those
attempting to influence change. In a recent United States Department of Education
national longitudinal study that followed students for 12 years beginning in eighth grade,
66 percent of students who graduated on-time from high school with a standard diploma
entered some kind of postsecondary school directly from high school and another 13
percent entered by their mid-20s. According to this Department of Education study, the
result was a total access rate of 79 percent.\(^2\) Clifford Adelman, a former researcher for the Department of Education and current Senior Associate at the Institute for Higher Education Policy, utilized this longitudinal study to support his contention that access to higher education is not a national crisis. However, the real focus should be upon increasing student participation in higher education. Adelman states that the study does not track what type of school in which the student is enrolled or for how many credits. Most importantly, the data do not indicate retention figures. Access and retention are part of a symbiotic relationship that is necessary for academic success, and his argument for the need to include retention data is well-supported.

Adelman overlooks the types of students in the study and that they may not be enrolled in their desired institutions of higher education, most commonly due to financial obstacles. This manipulation of data to support his thesis also ignores a key component to the higher education access issue that is part of the national crisis. Adelman’s work never mentions how family income affects enrollment. “In 2002, 51 percent of high school completers with family incomes in the lowest quintile were enrolled in college in the October after completing high school, compared with 61 percent of those from middle-income families and 80 percent of those from family incomes in the top

These data, also released by the Department of Education, illustrate the true access crisis facing high school graduates today. It is a simple concept: those who can afford college due to their family income have a greater likelihood of attending than those whose families cannot afford it. Families with higher incomes tend to have family members who have already navigated the higher education process. Additionally, they often attend high schools that better prepare them academically and provide them with the counseling information that makes attending college an attainable reality. The families in the upper tier of income also maintain a higher level of retention and degree attainment. “71 percent of bachelor’s degrees go to students in the top income quintile, as contrasted to just 10 percent for the lowest income quintile.”

This supports the assertion that even if students from the poorest families have access to higher education that it is more difficult for them to remain enrolled in school, as compared to those students from wealthier families. Access for all students who wish to attend higher education is essential and providing them with the opportunity to complete their degrees is equally important.

“We need to put a college education within reach of every American. That's the best investment we can make in our future.”

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presidential candidate Barack Obama during a speech entitled, “Reclaiming the American Dream,” focus upon access, and they also imply the vital role of opportunity. President Obama’s college affordability fact sheet states, “To be successful in the 21st Century economy, America’s workforce must be more innovative and productive than our competitors. Giving every American the opportunity to attend and afford and be successful in college is critical to meeting that challenge.” It is the opportunity to succeed that must be fostered once the student has gained the access to higher education. President Obama aptly realizes the role of higher education in the country and its residual affects on the rest of the world. The benefits begin on the micro level and work their way up to the macro.

According to the 2007 College Board Report, “Education Pays: The Benefits of Higher Education for Individuals and Society,” college graduates are more likely to have higher wages, receive employer-provided health insurance and pension benefits, have better personal health, and realize greater opportunities for their future generations. On a social plane, higher levels of education correspond to lower unemployment and poverty rates; the earnings of workers with lower education levels are positively affected by those with higher education degrees; college graduates have lower levels of smoking and healthier lifestyles; and higher levels of education are correlated to increased civil

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6 Barack Obama College Affordability Fact Sheet, “Barack Obama and Joe Biden Making College Affordable for Everyone”
participation including volunteer work, voting, and blood donation.\textsuperscript{7} The prosperity of the American society is contingent upon the opportunity for success by the individual. Removal of that opportunity results in detrimental consequences within the United States and the ever-expanding global marketplace. With advents in technology and a global economy that has grown with American influence, the ripple effects of an American downturn in education prosperity would be immense.

The backdrop of a global crisis that could emerge out of an uneducated populace has been one of the motivations for those, including President Obama, who believe that access and success in higher education are a necessity. This has created a difficult position for students and administrators. Those in support of higher education access and opportunity feel that it is a right for all who are academically eligible to be able to attend an institution of higher education. They do not believe that personal finances should be the determining factor of opportunity. Rather the merit of the individual should take precedence. The opponents of that ideology often view higher education similar to a business that should be consumed only by those who can afford it or can successfully navigate the opportunities for financial assistance due to their academic qualifications. Even though the majority of well-paying jobs require some form of higher education, a diluted standard available to all would eventually create a higher benchmark than a bachelor’s degree. With some restricted access and opportunity to succeed, the

\footnotesize{\textsuperscript{7} Sandy Baum and Jennifer Ma, \textit{Education Pays: The Benefits of Higher Education for Individuals and Society}, 2.}
opponents of universal higher education maintain that there will be a healthy level of competition on the campuses across America.

President Obama and those who share his goal of higher education for all Americans envision a nation that is still able to have competition amongst the elite institutions, while broadening opportunities for those individuals currently being dejected and rejected by the higher education system. Increasing access and opportunity does not necessarily translate into greater numbers of applications and admits into top tier schools, which typically have the highest costs and the most rigorous requirements. It will produce increased enrollment figures in community colleges, vocational schools, and potentially the four-year state university. Higher education provides those on the lower rungs of the socio-economic ladder the ability to move up and change their lives, as well as the lives of future generations. Denying people the prospect of furthering their education based upon their gender or race is discrimination. Yet it is an acceptable practice to deny them based upon their ability to pay a bill. The existing higher education establishment is not built upon equity. Rather it thrives upon elitism, reputations, and ever-increasing costs. Those being denied the ability to attend institutions of higher education, or even just the schools of their choosing, view this issue as a matter of fairness. Many feel that they are being punished for their station in life, instead of being able to prosper through their own ambitions and abilities. They are facing nearly impossible obstacles to get to college, while countless students languish during their time on campus because their parents can afford to purchase the diploma that they are just expected to obtain.
The division being created in the United States because of the higher education access issue violates some of the basic tenets that have determined the growth and prosperity of the nation. John Winthrop, an early Puritan colonist, spoke of his new settlement in the Massachusetts Bay Colony as a “city upon a hill” to lead others as an example of a God-fearing and following community. This belief by John Winthrop for his small community to lead has expanded over the last nearly four hundred years into the United States being the city upon the hill for the rest of the global community. To deny academic growth for members of society stands in opposition to this ideology. It is evident that education is vital to the prosperity of modern society, so it seems counterintuitive to hinder or deny access to higher education. Many of the nation’s top colleges and universities have taken the city upon a hill concept quite literally, as that is often their geographic location in comparison to the town below. Society looks up to the most educated for guidance, and it is essential to ensure that higher education does not become an exclusive subset of society that loses its connection with the masses.

The students who are able to achieve their goal of higher education through hard work, determination, and limited personal finances personify the stories of Horatio Alger. The idea of pulling oneself up through the rungs of society to a life of success is the American dream. Education provides one with the best opportunity to fulfill that aspiration. Making the American dream a near impossibility for many citizens, particularly the poorest, stands in opposition to the motivations that have been the catalysts for social and economic change, growth, and success. As the costs of higher education have risen and families are expected to contribute more money toward the
diploma, students and families are seeking out alternative, and often high-cost solutions to fill the cost gap and maintain their desire to achieve their own American dream.
CONCLUSION

The higher education issues are fluid and potential resolutions are of high priority to the current Congress. July 1, 2009 marked the release of a simplified FAFSA form, which reduced the amount of invasive and unnecessary financial questions being posed to families, as well as the implementation of the Income-Based Repayment plan. Further pending legislation may alter or eliminate the FFEL and Perkins Loan programs with the savings being invested into increasing the purchasing power of the Pell Grant program. The voices of schools, student loan lenders and politicians are getting louder as pending legislation becomes closer to implementation. These are pieces of legislation that will alter the landscape of higher education and do not alleviate many concerns regarding access, retention, and affordability. Positive changes to the student loan programs, as suggested by the Rethinking Student Aid Study Group, are not a Congressional priority despite the support of such augmentations by various financial aid organizations. Congress’s efforts to increase the Pell Grant, which provides greater opportunity for the students with the lowest expected family contributions, is admirable, and yet increasing opportunities for non-Pell Grant recipients does not appear to be a focal point.

Congress and institutions of higher education are aware of the rising costs and that many of the lower and middle class students and families have been forced into a life of debt due to a lack of qualifying for need-based assistance, not receiving enough need-based funding, or not being able to write the full check at the beginning of each semester.
I am a statistic. I am one of 100,000,000 on the rolls of student debt. Every month, I write out a check for $660 to Sallie Mae... At 46 and fifteen years out of grad school, I still owe around $9,000 from my graduate GSLs... Now I also owe PLUS loans for my daughter’s undergraduate education, making a combined total of $34,000... Besides that, my daughter, who graduated in 2002, herself owes about $25,000.¹

This candid admission by Professor Jeffrey Williams of Carnegie Mellon University illustrates the difficult position faced by the middle class families, who are now suffering from the same affordability issues that have plagued the lower class for decades. Fairly successful parents, likely who have completed their own bachelor’s degree programs, are struggling to provide their children with a similar academic experience. They possess the first-hand knowledge of how valuable a degree is for success and yet they may not be able to offer that to their own children. These are many of the families who have been forced into insurmountable debt and are often victims of the predatory direct-to-consumer loans or unfavorable terms of the school-certified private student loan. These families make the debt decision to avoid attending an institution of lesser prestige or a lack of higher education altogether. Countless Americans make this decision while sitting around the dinner table discussing their dreams and current finances, in conjunction with the unknown future of what the higher education investment will actually produce for students. The higher education choice rendered by families is reactive to the admissions

and financial aid decisions, as well as the cost figures, made by the college or university and the legislative updates enacted by Congress.

The unfortunate reality of higher education is that without a massive system overhaul and without measures, many of which were suggested by the Spellings Commission, implemented, the issues of access, retention and affordability will become even more pronounced as they begin to affect more families. The rising costs in comparison to family resources and available financial aid are creating an ever-expanding gap. The parents’ ability to contribute toward the degree of higher education will become less significant as the cost gap increases, which will put more of a burden on the student. Currently, the most viable, and potentially costly, assistance to the student outside of federal and institutional financial aid is the private education loan. Further options for these students need to be explored and implemented to maintain their ability to enroll and complete their programs of higher education. The federal government has been successful in the PLUS Loan program for parents, as well as the more recent PLUS Loan program for graduate students, and it is time that a similar program is considered for undergraduate students. A federally guaranteed fixed interest rate undergraduate student loan that mirrors the program for parents can only benefit the students. A PLUS Loan program for undergraduate students will drastically reduce the need to rely on private education loans, with the exception of international students who are not eligible under any federal student loan program, and it provides another option for those students whose parents are unable or unwilling to take on the debt responsibility. Making a program like this available to students can only add transparency to a system that is often described as
confusing and complex. Critics of this concept will likely cite that adding another federal program, particularly one for loans, will only add to the list of overlapping finance options that often confuse students and parents. While initially that may be true, a PLUS Loan program for undergraduate student borrowers will streamline those students from various private education loan lenders into one federal loan program. A stable and more affordable option to fill the funding gap is likely to have positive effects on access and retention.²

Legislation implemented by Congress has limited power over the operations of institutions of higher education. Due to the mixture of public and private colleges and universities, the significant portion of federal influence over the schools pertains to the funding of financial aid programs and the various regulations related to their administration. Other aspects of the schools’ daily operation are subject to governmental oversight and yet most fiscal decisions made by administrators are done so autonomously. This unregulated behavior has played a significant role in increasing issues related to access, retention, and affordability. With limited mandates from Congress affecting the daily fiscal operations of the schools, it is the responsibility of the institutions to reassess how their administrative decisions are altering the dreams of the consumers of education and the long-term results that will stem out of a populace that can

² After the drafting of this original idea put forth by the author, a student loan lender, Graduate Leverage, created a loan product called the Student PLUS Loan. The loan program, which premiered in July of 2009, is not an official program created by Congress. The lender is filtering the funding from the Parent PLUS Loan and placing the loan in the name of the student borrower. It is the hope of the author that this Student PLUS Loan will be the impetus needed for Congress to create a new federal loan program for undergraduate borrowers.
no longer achieve success through improving of the self, which then has negative ramifications for both the American society and the global marketplace.

To meet the challenges of the 21st century, higher education must change from a system primarily based on reputation to one based on performance. We urge the creation of a robust culture of accountability and transparency throughout higher education. Every one of our goals, from improving access and affordability to enhancing quality and innovation, will be more easily achieved if higher education institutions embrace and implement serious accountability measures.  

The concepts of accountability and transparency, as suggested by the Spellings Commission, are necessary to alter the climate of higher education. If schools do not seek out measures to improve their operations, the problems faced by the education consumer will not be eradicated. Ideas such as the creation of a Student PLUS Loan or increasing the purchasing power of the Pell Grant only act as a stop-gap for certain populations of students. Schools must create a standard of fiscal operation that is consistent with their peer institutions. This will provide the families with the stable landscape needed to make life-altering decisions about their financial and educational futures.

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