

# Financing Unmet Need

## Why College Students Use High-Cost Credit Sources

As the cost of a higher education continues to rise, individuals and families are increasingly worried about how to pay for it and question whether a degree is as valuable in the workforce as it once was. The complexity and opacity of the college pricing system creates difficulties for even the most financially savvy consumers. This brief identifies several factors that contribute to misunderstandings of the real cost of college. It also explores how families currently pay for schooling after scholarship and grant aid. The brief concludes with policy recommendations to help individuals make informed choices that will help make college more affordable.

### Diverse Outcomes by Program of Study

Higher levels of education are associated with greater lifetime earnings on average, but individual outcomes can vary significantly, largely based on program of study and level of degree. The Department of Education launched the College Scorecard, an online tool, in 2015 to help students and their families better understand the cost and value of their higher education options.<sup>1</sup> The most recent expansion of the tool, in spring 2023, included adding outcomes such as median earnings four years after graduation by program of study.<sup>2</sup>

Examples of Outcomes by Program of Study and Degree Level from College Scorecard

Program of Study	Degree Level	Debt <sup>3</sup>	Earnings Four Years After Graduation <sup>4</sup>	Debt to Earnings Ratio
Computer/Information Technology	Associate Degree	\$20,355	\$50,538	.40
Psychology	Bachelor's Degree	\$22,358	\$43,788	.51
Dental Support Services	Associate Degree	\$20,266	\$50,425	.40
Business Administration	Bachelor's Degree	\$30,048	\$60,112	.50
Registered Nursing	Associate Degree	\$18,833	\$67,605	.28
Accounting	Bachelor's Degree	\$27,901	\$66,358	.42

Source: U.S. Department of Education, College Scorecard

### Key Takeaways

- While students must carefully consider how much it costs to pursue postsecondary education, they should also research the expected return on investment of different academic programs to properly assess how to fund their studies. Student outcomes (including debt, earnings, and employment rates) vary wildly by program of study.
- Students struggle to understand college financial aid offers because they are difficult to compare and may not disclose costs accurately. Federal policymakers can address this problem by requiring institutions to use standard definitions for federal student aid programs and similar cost of attendance breakdowns.
- Many students cover their unmet need using high-cost credit sources such as Parent PLUS loans, credit cards, and private for-profit student loans. Though those options may be convenient or well-known, they are also exorbitantly expensive. Policymakers can make college more affordable by promoting awareness of lower-cost sources of funding like scholarships, grants, and nonprofit and state-based student loan programs.

The College Scorecard allows students and families to explore real student outcomes – such as educational debt and income levels by program of study and degree level – at specific schools. The expanded data allows for a more long-term look at these outcomes to better understand the return on investment in a higher education program. A program with a relatively high income may be worth a higher investment of student debt, especially if the student is able to earn more scholarships and grants to cover some of the cost. For example, a bachelor’s degree in accounting has a higher median debt level, but also has higher earnings than many other bachelor’s degrees.<sup>5</sup> Calculating a debt-to-earnings ratio can help demonstrate, at a glance, which programs have a better return on investment than others.

In order to be an informed consumer, choosing a field and institution of study is only one decision a prospective student must make. They must also consider the cost of earning their degree, which will vary by institution, and assess their financing options.

### Financial Aid Offer Confusion Can Obscure True Cost

It can be challenging for prospective students to understand the total cost of earning a degree or certificate at a given institution. Individuals must file a Free Application for Federal Student Aid (FAFSA) to determine their eligibility for federal student aid. Institutions will send accepted students a financial aid offer that includes their costs, federal student aid eligibility, and possibly other sources of aid. The content of these offers is not regulated and varies widely between institutions. A growing body of research suggests these offers have contributed to students’ misunderstandings of net price, which is the actual amount of money the student owes after all forms of financial aid that do not need to be repaid are applied (such as scholarships and grants).

New America and uAspire collaborated to analyze over 11,000 financial aid offers sent by 910 institutions to high school students, resulting in an influential report published in 2018. This analysis found abundant issues that create confusion among students and their families, including unclear jargon and inconsistent terminology, failure to differentiate types of aid as needing repayment or not, and no clear next steps to guide students.<sup>6</sup>

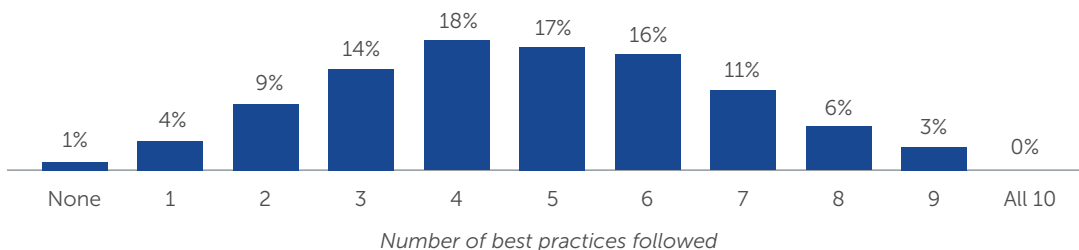
Following this report, the U.S. Department of Education (ED) and the Financial Literacy and Education Commission (FLEC) developed a set of ten best practices for institutions to follow in crafting financial aid offers in 2019. These best practices included many of the recommendations identified in prior research, as well as suggestions related to the timing of issuing the financial aid offers and information to pair with them.<sup>7</sup>

The U.S. Government Accountability Office conducted a review of financial aid offers from a nationally representative sample of colleges in 2022 and determined that most colleges are not following the best practices outlined by ED and FLEC. Almost two-thirds of colleges in the sample followed five or fewer of the ten best practices, and none of the colleges followed all ten.<sup>8</sup>

Most of the colleges in the sample failed to provide an accurate net price. Only nine percent of the colleges in the sample were found to provide a net price estimate using the best practice definition. Half of the institutions were understating the net price by including loans in the calculation and/or by failing to include certain costs, such as books or living expenses. The remaining 41 percent of the sample did not estimate the net price at all.<sup>9</sup>

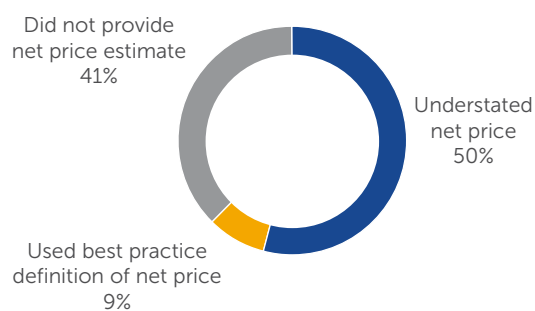
In addition to the lack of upfront pricing transparency, students who are in college can also experience unanticipated college costs. Financial aid offers only provide the costs and financial aid information for one academic year and many institutions increase tuition and

Percentage of Colleges Adhering to Best Practices for College Aid Notifications, by Number of Best Practices followed



Source: U.S. Government Accountability Office, *Financial Aid Offers: Action Needed to Improve Information on College Costs and Student Aid*

### Percentage of Colleges by Net Price Definition Accuracy



Source: U.S. Government Accountability Office, *Financial Aid Offers: Action Needed to Improve Information on College Costs and Student Aid*

fees annually, making it difficult for students to accurately plan how much their degree will cost. Students may also find that their institution has “front-loaded” their grant and scholarship aid, meaning the institution offers more grant and scholarship aid to students in their first year compared to subsequent years. Returning students may have to use or increase their use of loans or other credit resources to replace the amount of grant and scholarship aid being reduced.

Amid these uncertainties, students are left with the daunting task of piecing together budgets. When grants, scholarships, and other free aid do not meet costs, students face what is called “unmet need”. Research has shown that students with unmet need are less likely

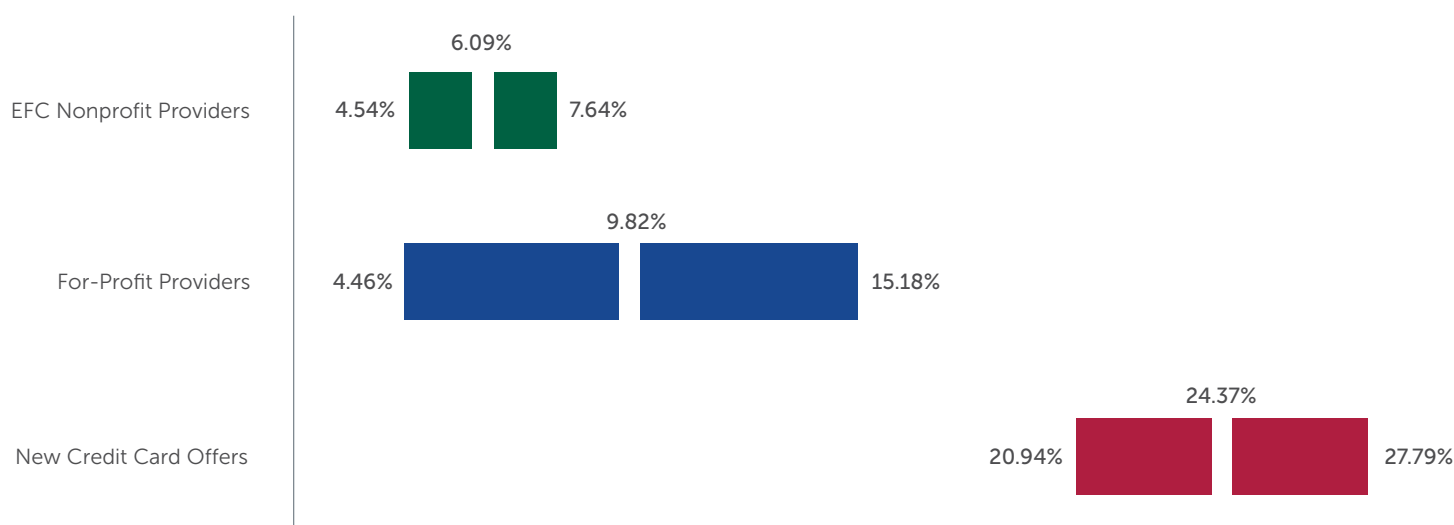
to graduate than those with no unmet need.<sup>10,11</sup> Understanding unmet need, and the financial resources students use to fill this gap, is important for students’ long-term financial outlook.

### How Students Fund Unmet Need

About three-quarters of students in the 2019-2020 academic year had remaining financial need after the Expected Family Contribution (now called the Student Aid Index) and all grant aid were accounted for.<sup>12</sup> Students use a variety of resources to pay for this unmet need. In a 2022 survey of undergraduate students, more than half reported using income from current employment and/or personal savings.<sup>13</sup> Some students resort to more expensive and financially riskier options to fill in these gaps.

About 10 percent of undergraduates reported that a parent borrowed Parent PLUS loans for their education and almost a third said they used a credit card to help pay for school.<sup>14,15</sup> Fifty-five percent of a nationally representative sample of students who graduated in the 2019-2020 academic year reported borrowing loans to pay for college. The vast majority of that loan aid was federal, but some students received loans from institutional, state, or private sources. Six percent of students had private loans, ranging from two percent attending public two-year institutions to 11 percent attending private nonprofit four-year institutions.<sup>16</sup>

### Range of Average Fixed APRs for Undergraduate Private Student Loans and Range of Average APRs for New Credit Card Offers



Source: EFC for private loan data, last updated 9/1/2023; Lending Tree for credit card data

The Parent PLUS loan charges a 4.228 percent origination fee and an 8.05 percent interest rate for Award Year 2023-24.<sup>17</sup> Credit cards and private for-profit loans often have higher interest rates than student loans from other sources, introducing some additional risk for the students who use these resources. While for-profit loan providers can have annual percentage rates (APR), or interest rates, as low as nonprofit providers, the average range of rates students receive extends much higher than nonprofit providers.<sup>18</sup> Average offers on new credit cards have even higher APRs, ranging from just under 21 percent to almost 28 percent.<sup>19</sup> Remarkably, 30 percent of families swipe their credit card to fill some of their unmet need even though lower-cost options may be available to them.<sup>20</sup>

Obtaining a higher education is expensive, and affording it becomes even more burdensome when students and/or parents use credit resources with high interest rates to finance their unmet need. Families should first seek free aid, exhaust their federal student loans, then take the time to identify lower-cost resources. Lower interest rates can save borrowers thousands of dollars in the long run.

## Federal Policy Recommendations

### Promote accurate student outcomes data

The federal government and other stakeholders should promote the College Scorecard and other sources with accurate student outcomes data. Consumers should know their future monthly student loan payments, accumulated federal debt totals, and projected monthly earnings based on intended career pursuits.

### Standardize financial aid offers

Congress should require institutions' financial aid offers to prospective students to use standard definitions for federal student aid programs and use similar cost of attendance breakdowns to make comparing multiple offers easier. Additionally, colleges should not automatically package Parent PLUS or Grad PLUS loans in the aid offer.

### Overhaul preferred lender list restrictions

Congress must overhaul the preferred lender list restrictions that limit awareness of state-based and nonprofit private student loan options that are equal to or more generous than the federal student loan programs.

<sup>1</sup> National Association of Independent Colleges and Universities. College Scorecard. Retrieved from <https://www.naicu.edu/policy-advocacy/issue-brief-index/regulation/college-scorecard#:~:text=The%20College%20scorecard%2C%20which%20was%20diversity%20%E2%80%93%20to%20create%20institutional%20profiles>.

<sup>2</sup> Institute for Higher Education Policy. Dancy, K. (2023). Updated College Scorecard Data Shed New Light on Student Earnings, Borrower Repayment. Retrieved from <https://www.ihep.org/updated-college-scorecard-data-earnings-repayment-campus-diversity/>.

<sup>3</sup> This is the weighted average of the school- and program-level median amount.

<sup>4</sup> Ibid.

<sup>5</sup> U.S. Department of Education. College Scorecard. <https://collegescorecard.ed.gov/>.

<sup>6</sup> New America; uAspire (2018). Decoding the Cost of College: The Case for Transparent Financial Aid Award Letters. Retrieved from [https://d1y8sb8igg2f8e.cloudfront.net/documents/Decoding\\_the\\_Cost\\_of\\_College\\_Final\\_6218.pdf](https://d1y8sb8igg2f8e.cloudfront.net/documents/Decoding_the_Cost_of_College_Final_6218.pdf).

<sup>7</sup> U.S. Financial Literacy and Education Commission (2019). Best Practices for Financial Literacy and Education at Institutions of Higher Education. Retrieved from <https://home.treasury.gov/system/files/136/Best-Practices-for-Financial-Literacy-and-Education-at-Institutions-of-Higher-Education2019.pdf>.

<sup>8</sup> U.S. Government Accountability Office (2022). Financial Aid Offers: Action Needed to Improve Information on College Costs and Student Aid. Retrieved from <https://www.gao.gov/assets/gao-23-104708.pdf>.

<sup>9</sup> Ibid.

<sup>10</sup> Fletcher, C., Cornett, A., and Webster, J. (2022). State of Student Aid and Higher Education in Texas. Retrieved from <https://www.trelliscompany.org/wp-content/uploads/2022/09/SOSA-2022.pdf>.

<sup>11</sup> Education Research and Data Center (2019). Impact of Need-Based Financial Aid on College Completion: An Event History Analysis. Retrieved from <https://erdc.wa.gov/publications/student-outcomes/impact-need-based-financial-aid-college-completion-event-history>.

<sup>12</sup> U.S. Department of Education (2023). National Postsecondary Student Aid Study: 2020 Undergraduate Students. Results produced using the tool found at: <https://nces.ed.gov/datalab/>.

<sup>13</sup> Trellis Company. Fletcher, C., Cornett, A., Webster, J., and Ashton, B (2023). Student Financial Wellness Survey: Fall 2022 Semester Results. Retrieved from [https://www.trelliscompany.org/wp-content/uploads/2023/05/SFWS-Aggregate-Report\\_FALL-2022.pdf](https://www.trelliscompany.org/wp-content/uploads/2023/05/SFWS-Aggregate-Report_FALL-2022.pdf).

<sup>14</sup> Trellis Company. Fletcher, C., Cornett, A., Webster, J., and Ashton, B (2023). Student Financial Wellness Survey: Fall 2022 Semester Results. Retrieved from [https://www.trelliscompany.org/wp-content/uploads/2023/05/SFWS-Aggregate-Report\\_FALL-2022.pdf](https://www.trelliscompany.org/wp-content/uploads/2023/05/SFWS-Aggregate-Report_FALL-2022.pdf).

<sup>15</sup> U.S. Department of Education (2023). National Postsecondary Student Aid Study: 2020 Undergraduate Students. Results produced using the tool found at: <https://nces.ed.gov/datalab/>.

<sup>16</sup> Ibid.

<sup>17</sup> U.S. Department of Education, Federal Student Aid. Parent PLUS Loans. <https://studentaid.gov/understand-aid/types/loans/plus/parent>.

<sup>18</sup> Education Finance Council, unpublished table. The endpoints of the bars were created using the average of the respective endpoints. Data includes all EFC member nonprofit providers and the five most prominent for-profit providers (Citizens Bank, College Avenue, Discover, SallieMae, and SoFi). The midpoint is not the average rate that borrowers receive. Note: The published for-profit rates include a 0.25 automatic payment discount. The published rate for nonprofit providers in some cases includes a 0.25 automatic payment discount and in others does not, although it may be available to the borrower.

<sup>19</sup> Lending Tree (2023). Average Credit Card Interest Rate in America Today. Retrieved from <https://www.lendingtree.com/credit-cards/average-credit-card-interest-rate-in-america/>.

<sup>20</sup> Trellis Company. Fletcher, C., Cornett, A., Webster, J., and Ashton, B (2023). Student Financial Wellness Survey: Fall 2022 Semester Results. Retrieved from [https://www.trelliscompany.org/wp-content/uploads/2023/05/SFWS-Aggregate-Report\\_FALL-2022.pdf](https://www.trelliscompany.org/wp-content/uploads/2023/05/SFWS-Aggregate-Report_FALL-2022.pdf).