

HOW AMERICA PAYS FOR COLLEGE

HIGHLIGHTS OF FINDINGS

Sallie Mae's study, *How America Pays for College 2009*, conducted by Gallup, provides a picture of how families made the investment in higher education last academic year and how they are beginning to meet the challenges of the economic recession. Based on a nationally representative survey of college-going students and parents of undergraduates, the study found that, despite the country's economic challenges, American families expressed unexpected confidence in their ability to continue to pay for their son's or daughter's education. They reported that parents continue to be the largest source of funding for college costs. Families indicated that their total cost of attendance increased by 9 percent over the previous year's survey with no appreciable change in the type of colleges and universities attended.

The report is the second annual Sallie Mae national study conducted by Gallup that examines how families of undergraduate students aged 18 to 24 finance the expenses associated with a higher education. To capture a complete picture of how families meet the costs of college, Sallie Mae and Gallup designed this study to gather data directly from families of the college-going population on their attitudes, aptitudes and actual experiences regarding paying for college. For this year's study, Gallup surveyed 800 college-going students and 804 parents of such students in March and April 2009 on a series of questions that gauged Americans' willingness and ability to pay for postsecondary education.

The timing of this survey came after the onset of the most severe economic recession in decades. However, families made most of their financial decisions for the 2008-09 school year in the spring and summer of 2008, and selected their institutions even earlier. As a result, the survey is likely to capture only the beginnings of the impact of the economic uncertainty on college choices. However, families' attitudes about how they can continue to meet college costs would be strongly reflected in this survey.

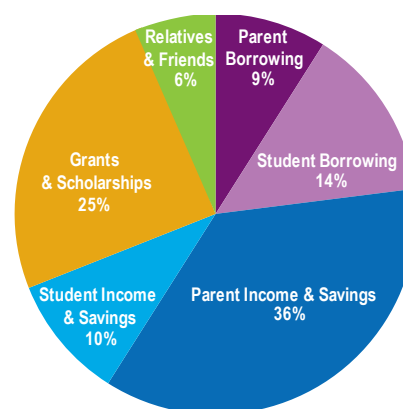
BORROWING TO FINANCE HIGHER EDUCATION

One of the most significant findings of this report is to put in perspective the role of borrowing in financing higher education. The study finds that borrowing is an important source of funding, but not the most important source. In fact, despite the economy, 58 percent of families accessed college in academic year 2008-09 without borrowing at all. The remaining 42 percent of families who borrowed spent, on average, 30 percent more on their education than those who did not, suggesting that many appeared to use borrowed funds to reach for a desired school of their choice.

HOW THE AVERAGE FAMILY PAYS FOR COLLEGE

As with last year's study, Gallup used the data on funding sources to develop a composite picture of how the average American family pays for college. This year's composite improves upon last year's study through adjustments in the survey to better capture contributions from income and other non-borrowed sources as well as better reporting of private education loans.

Fig. 1 How the Average Family Pays for College: Average Percent of Total Cost of Attendance Paid from Each Source



With these improvements, the composite shows that, on average, parents funded 45 percent of the cost of their daughter's or son's college education, either directly from their own resources (36% from income and other savings) or borrowing (9%). The second largest funding source was grants and scholarships which funded, on average, 25 percent of all college costs. Students paid for 24 percent of their education, either through borrowing (14%) or from their own income and savings (10%). In addition, friends and relatives helped with 6 percent of the costs.

DIFFERENCES BY HOUSEHOLD INCOME, RACE OR ETHNICITY, AND TYPE OF INSTITUTION

The composite shows important differences in how families across income levels and racial/ethnicity backgrounds pay for college. In addition, the type of institution attended can also make a difference.

- Middle-income families attained far less grant and scholarship aid than those with lower incomes, and appear to supplement the difference with parental personal assets and a slightly larger share of borrowed funds.

- ▶ Higher-income families paid nearly 40 percent more in college costs than middle- and lower-income families, financed primarily from sizable contributions from parents' income and savings (on average more than \$12,000).
- ▶ Hispanics and African-Americans drew upon borrowed funds for a much higher share of attendance costs than did White families, with Hispanic households borrowing to pay for 32 percent of costs and African-American families borrowing 34 percent compared to 22 percent for White households. African-American families appeared to borrow a higher proportion of their income for college costs than did other races or ethnicities, consistent with their strong expressions of the importance of higher education as necessary for a better quality of life. Hispanic families, who most strongly rated college as part of the American Dream, appeared to be more cost conscious about college, but also received fewer scholarships and grants (an average of \$4,442 compared to \$5,268 for African-American students and \$5,021 for White students).
- ▶ Community college students paid the most out of pocket and borrowed the least compared to their counterparts at other institution types. On average, they contributed nearly one-third of college costs from their own income and savings.

COST CONSIDERATIONS AND VALUE OF EDUCATION

Other major findings emerge from the survey's extensive data. The recession may be strengthening the resolve of American families to pursue higher education. Social benefits of continuing postsecondary education—achieving the American Dream and meeting family expectations—were rated higher than last year by all races/ethnicities and most income groups. Strong support for various financial benefits of a college education continues to be evident. However, compared to last year's study, students appear to be more cost conscious when considering the value of college, whereas parents are more willing to stretch financially and have somewhat higher opinions of the value of college. Although still seen as an investment in the future, fewer students (53%) indicated they would rather borrow than not attend college than did so last year (67%).

Even so, more than four in 10 families did not narrow their choices of colleges based on cost, unchanged from the previous year. Fifty-eight percent of families who borrowed said that they did not take the student's

expected starting salary into consideration or it didn't make a difference when they decided whether or how much to borrow. In addition, 23 percent of students could not answer when asked to estimate their likely monthly student loan payment. The remaining 77 percent gave answers that showed little correlation between the total amounts they estimated they would borrow and their projected monthly payments.

CONFIDENCE IN ABILITY TO MAKE INVESTMENT IN HIGHER EDUCATION

Despite the economic times, 67 percent of parents expressed confidence in their ability to continue to meet the cost of their son's or daughter's college education, compared to only 13 percent who expressed no or little confidence. Still, there was a marked increase in the percentage of parents who were extremely worried that the value of their savings and investments would be lower (31% compared to the previous 17%). The No. 1 worry of parents continued to be that schools will raise tuition (35% were extremely worried with another 23% worried).

APPLYING FOR FINANCIAL AID

The study found that once again nearly one in four families remain ineligible for federal grants or student loans because they fail to complete the Free Application for Federal Student Aid (FAFSA). Nearly nine in 10 lower-income families submitted the application but the completion rate drops as income rises. This year's survey found that nearly half did not fill out the FAFSA because they were unaware of it (18%) or they didn't think that their family would qualify for aid (30%).

For the full study, please visit

www.SallieMae.com/HowAmericaPays 