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## UNMET FINANCIAL NEED: Expanding Access to Federal Loans to Improve College Completion

BY ALEXANDRA SIROTA, POLICY ANALYST

### Executive Summary

- Community college enrollment has increased dramatically as students seek to gain the skills for future employment during a tough economic time.
- The cost of full-time enrollment in community college represents 32 percent of family income for those families in the lowest 40 percent of the income distribution in North Carolina.
- Tuition for community college represents just a fraction of the costs associated with attending post-secondary education. When costs such as transportation, books and room and board are included, students, on average, face a financial need after financial aid of 80 percent of their education costs.
- Completion of degree programs is compromised when students face unmet financial need. National evidence suggests that a significant number of students (45 percent) are failing to complete their education programs due to financial strain.<sup>1</sup>
- North Carolina's community college students work more hours and are also more likely to enroll part-time than students in four-year universities.
- Expanding access to the federal student loan program from the current 21 campuses to all 58 North Carolina community college campuses can provide students with an affordable tool to pay for their education expenses. The risks to institutions are minimal and can be managed with planning, investment in the financial education of loan recipients and the support of the State Education Assistance Authority.
- At a time when unemployed workers are investing in upgrading their skills and the future workforce is preparing for the new economy, financial barriers to completing a certification or degree program should be reduced to ensure North Carolinians can get to work and stimulate local economies.

## Enrollment in Community Colleges Has Skyrocketed

Enrollment in North Carolina's community college curriculum programs that lead to a certificate, diploma or associate's degree has skyrocketed by more than 33 percent since 2000, and growth in enrollment in all programs has increased by 14 percent just since 2007.<sup>2</sup> Young adults, unemployed workers, and low-wage workers are taking the opportunity presented by a tough labor market to get training that will better position them for job opportunities when the economy turns around. Such an investment on the part of North Carolinians is essential to the ability of the economy to grow and innovate in the long term.

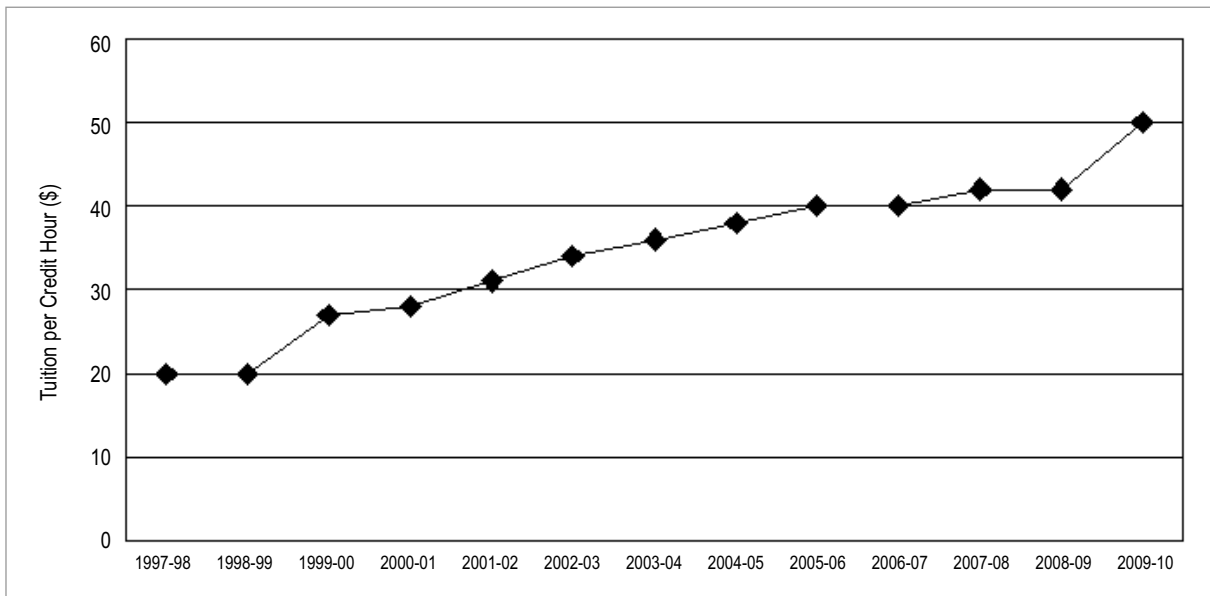
While the increase in enrollment rates may suggest that minimal barriers exist to entrance, the significant cost associated with attending community college places a financial burden on students that ultimately can impact their ability to complete an educational program. These costs, including tuition, books and living expenses, are not addressed fully by existing financial aid programs—both grants and loans—and place a particular strain on low-income and non-traditional students who stand to benefit the most from a degree.

The cost of community college represents a significant portion of a working family's budget. In the 2008 Measuring Up report published by the National Center for Public Policy and Higher Education, North Carolina received a failing grade with regards to the affordability of its post-secondary education programs. Across all families, the report found that 22 percent of family income would be required to meet the cost of community college minus available financial aid. For those families in the lowest 40 percent of the income distribution in North Carolina (annual median income of \$17,105), 32 percent of family income would be needed to cover the costs of community college.<sup>3</sup> For a poor family of four earning \$22,050 annually, community college costs represent 25 percent of their income.

But tuition is not the only cost that students in community college must incur. Books, transportation and living expenses represent a significant portion of the costs to community college attendance that are not often considered in the calculation of the true costs of an education at a community college.

**FIGURE 1**

**Tuition Alone Has Increased by Nearly 80 Percent from 2000-2001 to 2009-2010<sup>4</sup>**



For non-traditional students, child care and housing payments, for example, are likely to add additional costs to the estimated cost of \$15,914. Additionally, geographic variation in the cost of living can result in significant differences in these estimates by community.<sup>5</sup> On average, it is estimated that students at N.C. community colleges need to cover 80

**FIGURE 2**

**Estimates of Cost of Attendance at N.C. Community Colleges for Nine Months of Full-Time Study, 2007-2008**

Tuition and Fees	\$1,358
Books	\$1,057
Transportation	\$2,076
Personal expenses	\$1,558
Room and board	\$9,865
<b>TOTAL</b>	<b>\$15,914</b>

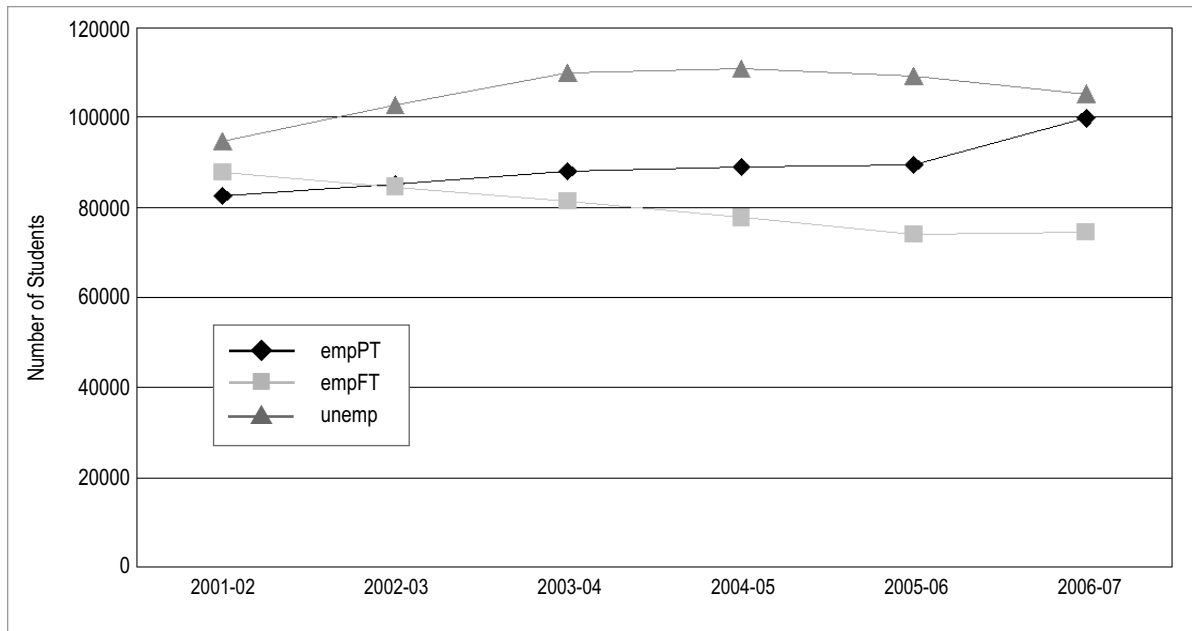
SOURCE: Tuition, fees and books from IPEDs Data Center. Transportation, personal expenses and room and board inflation-adjusted estimates provided in May 2008 estimates of costs for 2006-2007 in The Future of Community Colleges in North Carolina, May 2008, Insight, Volume 22, No.4.

percent of education-related expenses after aid.<sup>6</sup> (See Appendix A for N.C. Community College Unmet Need, Aid and Loans by Campus.)

Relatively little data is available to analyze the specific situation in North Carolina with regards to how students go about meeting their financial obligations to attend community college. National research has found that to cover the cost of community college, students increase their work hours and/or turn to private loans to fund their education. For example, more than half of community college students in the United States attend part-time and more than two-thirds of students work more than 20 hours per week.<sup>7</sup>

The NC Community College System website reports that nearly two-thirds of students enroll part-time and have family responsibilities.<sup>8</sup> Part-time enrollment, even more than employment, is linked to a higher likelihood of leaving a program without a degree because students take fewer credit hours per semester.<sup>9</sup> But work, too, presents a barrier to a student’s ability to focus on learning, especially if the hours dedicated to employment exceed 15 per week. It has been found that up to this point, students benefit from the work experience and can balance their academic and work pursuits adequately. In a national survey, 72 percent of community college students who work indicate their employment earnings cover tuition, fees and books.<sup>10</sup> In North Carolina, in 2006-2007, 62 percent of curriculum students were engaged in some type of employment, either part- or full-time.

Nationally, only 10.2 percent of two-year public college students receive federal loans, compared to nearly half of students at four-year public colleges.<sup>11</sup> However, the percentage of community college students taking out private loans quadrupled between 2003-04 and 2007-08.<sup>12</sup> Sixty-four percent of private loan borrowers at community colleges did not take out Stafford loans, fixed-rate federal loans available to students that are subsidized for those with demonstrated need and unsubsidized for those without. This finding suggests a combination of lack of information about and access to federal loan

**FIGURE 3****NC Community College Student Employment Status — 2001-2007**

SOURCE: NC Community College System, Matter of Facts 2008, p. 75

programs. Private loans offer higher interest rates and have less flexibility in repayment terms than federal loans, thus setting students up for potentially high debt burdens upon graduation and negative effects on their credit ratings.<sup>13</sup>

Perhaps more alarming, there is anecdotal evidence that community college students use credit cards to finance their education. According to the latest National Postsecondary Student Aid Study, 40 percent of community college students hold a credit card balance while 30 percent of four-year public university students do.<sup>14</sup> In 2008, students charged an average of \$2,200 in educational expenses to cards, up 134 percent from four years earlier.<sup>15</sup>

Completion of degree programs is compromised when students face unmet financial need. Just one in five first-time, full-time students graduated from North Carolina community colleges in 150 percent of the normal completion time after entering in Fall 2005.<sup>16</sup> In North Carolina, less than half of first-year community college students return for their second year compared to 80 percent of their university counterparts.<sup>17</sup> Some of these students likely transfer to four-year institutions and others may find work. National evidence, however, suggests that a significant number of students (45 percent) fail to complete their education program due to financial strain.<sup>18</sup>

Expanding access to federal student loans to all community college students should be part of the solution. Federal student loans represent an affordable tool for financing post-secondary education when compared to private student loans or credit cards. For example, the interest rate on a federal loan is often 3 to 4 percent, while interest on a private loan averages 12 percent.<sup>19</sup>

Despite the benefits of federal student loans to students, more than half of community colleges in North Carolina do not participate in the federal program. A key reason for their lack of participation is concern over the institutional risk of high student default rates on loans. Currently, a default rate of 25 percent or higher over two years would make an

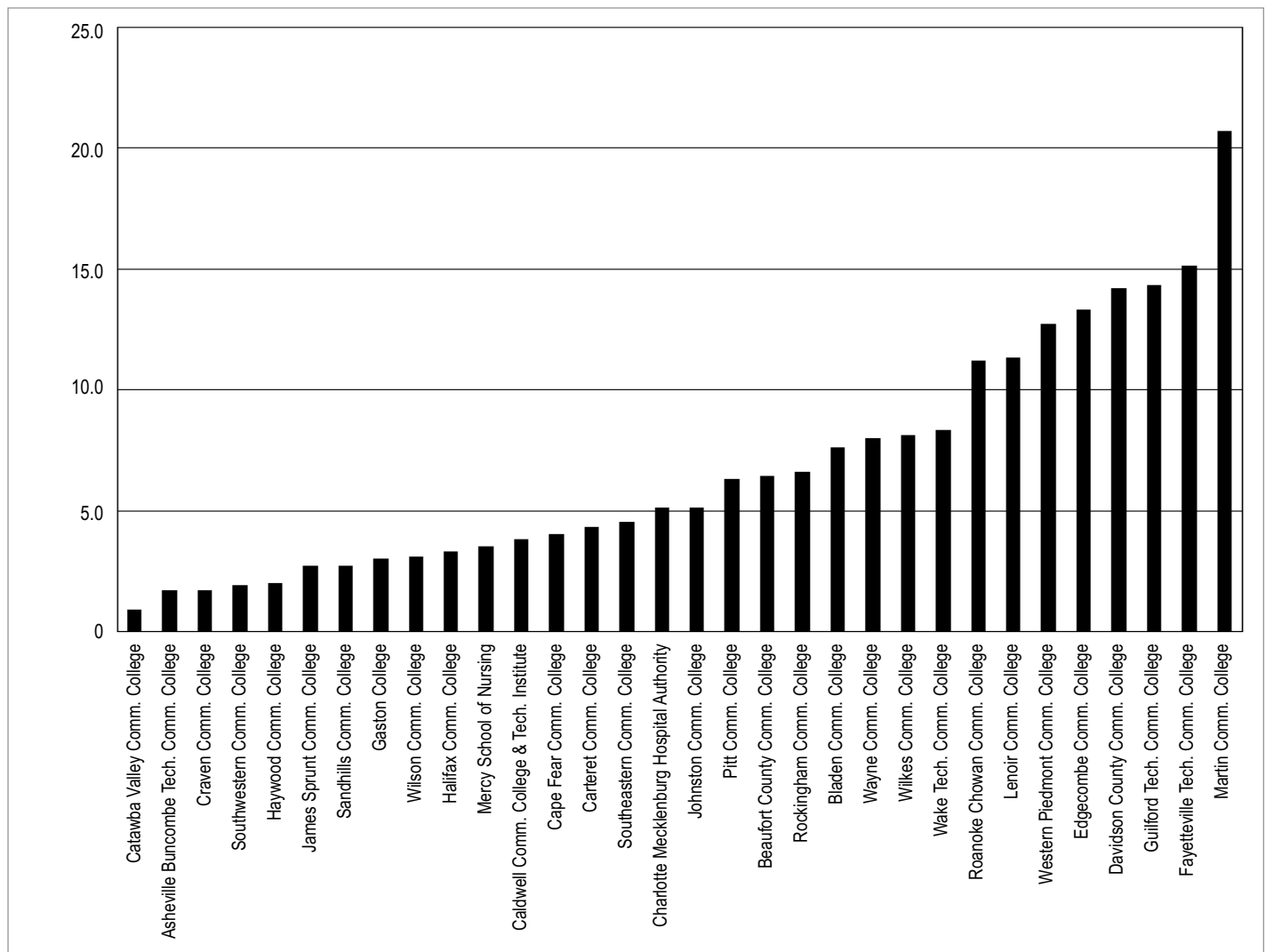
institution ineligible for distributing Pell Grants (as of 2011 that rate goes up to 30 percent). Pell Grants are provided to the neediest students but in just the past ten years represent a declining share of tuition. In North Carolina, more than 80,000 community college students receive Pell Grants averaging \$2,000 per student. The community colleges' concern about the potential loss of this important funding stream, while well-intentioned, is unfounded.

First, an appeals process is available for those institutions with high default rates but low participation rates. In addition, those institutions with fewer than 29 borrowers have their rate calculated each year based on those students entering repayment that year, not including prior years. A recent report by the Institute on Higher Education Access and Success found in its 2007 examination of default rates and participation rates alongside sanction rules that no college nationally would be subject to sanctions based on their outcomes. In North Carolina, as the graph below shows, no community college gets close to that default threshold.

Safeguards can and should be put into place to protect institutions and students from the

**FIGURE 4**

**Two-Year Default Rate for Community Colleges with Federal Student Loan Programs, FY 2007**



SOURCE: U.S. Department of Education, Trial Three-Year Default Rates, Accessed at: <http://federalstudentaid.ed.gov/datacenter/cohort.html>

risk of default. A default management plan is a key tool for institutions that outlines entrance and exit counseling, financial literacy programs for borrowers, and focused, enhanced loan counseling for students upon withdrawal or completion of their academic program.<sup>20</sup> The State Education Assistance Authority has significant experience in working with students in repayment and can serve as an important resource in developing and implementing a default management plan. As an expansion on the institutional default management plan, more extensive financial literacy initiatives on college campuses for students can address default rates and could be adapted for community colleges in North Carolina. For example, Texas Tech University has a range of program offerings to provide students with financial advice and consumer education as well as additional emergency grant funding for students in financial crisis. Preparing students for the repayment of their debt can minimize the risk to the institution and ensure that students are truly prepared for full economic citizenship with the skills to navigate an increasingly complex financial marketplace.

## Conclusion

**A**t a time when unemployed workers are investing in upgrading their skills and the future workforce is preparing for the new economy, financial barriers should be reduced to ensure North Carolinians can get to work and stimulate local economies. Making sure that need-based financial aid remains accessible and meaningful for low-income students enrolling in community college is essential to reducing students' overall financial burden. And when necessary, all students in the community college system should be able to access the federal student loan program as a way to cover the full costs of their educations. The investment in achieving post-secondary success will contribute to the long-term competitiveness of North Carolina.

- 1 The Future of Community Colleges in North Carolina, May 2008, Insight, Volume 22, No.4. p.
- 2 NC Community College System, Statistical Reports, 1999-2009. Accessed at: [http://www.nccommunitycolleges.edu/Statistical\\_Reports/index.html](http://www.nccommunitycolleges.edu/Statistical_Reports/index.html)
- 3 Measuring Up 2008, North Carolina State Report Card. Accessed at: [http://measuringup2008.highereducation.org/print/state\\_reports/long/NC.pdf](http://measuringup2008.highereducation.org/print/state_reports/long/NC.pdf)
- 4 Authors calculation based on data in A Matter of Facts: The North Carolina Community College System Fact Book 1998—2007, North Carolina Community College System, Raleigh, N.C., 1998—2008. Tuition fees for 2009-2010 found at N.C. Community College system website.
- 5 N.C. Living Income Standard provides an estimate of costs of living by various geographic breakdowns in North Carolina. See Quintero et al 2008. Making Ends Meet on Low Wages: The 2008 Living Income Standard. N.C. Justice Center: Raleigh, NC.
- 6 Author's calculation based on data from IPEDS, 2008-2009, Average Aid Received.
- 7 Cauthen et al, 2009, p. 1
- 8 <http://www.nccommunitycolleges.edu/pr/newsreleases/GetTheFacts.htm>
- 9 Cauthen et al, 2009, p. 7-8
- 10 Cauthen et al, 2009, p. 6
- 11 <http://nces.ed.gov/pubs2009/2009166.pdf>, p. 6
- 12 Project on Student Debt, 2009. Getting with the Program: Community College Students Need Access to Federal Loans. Institute for College Access and Success: Oakland, CA.
- 13 Project on Student Debt, 2009; Draut, Tamara. Strapped: Why America's 20- and 30-somethings can't get ahead. Demos: New York, NY
- 14 U.S. Department of Education, National Center for Education Statistics, 2007-08 National Postsecondary Student Aid Study (NPSAS:08)
- 15 Sallie Mae, 2009. How Undergraduate Students Use Credit Cards: Sallie Mae's National Study of Usage Rates and Trends. Sallie Mae, Inc: Wilkes-Barre, PA.
- 16 National Center for Education Statistics, IPEDS Data Center. Accessed at: <http://nces.ed.gov/ipeds/datacenter>
- 17 The Future of Community Colleges in North Carolina, May 2008, Insight, Volume 22, No.4. p. 31.
- 18 The Future of Community Colleges in North Carolina, May 2008, Insight, Volume 22, No.4. p. 33.
- 19 <http://nces.ed.gov/pubs2006/2006186b.pdf>, p. 98.
- 20 Guidelines for developing default management plans can be found at: <http://www.ifap.ed.gov/dpclatters/attachments/GEN0514Attach.pdf>

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**APPENDIX A:**  
**NC Community College Unmet Need, Aid, and Loans by Campus**

<b>Community College Campus</b>	<b>Federal Student Loan Program</b>	<b>Average Aid</b>	<b>Average Unmet Need</b>	<b>Percent Full-time, First-time undergraduates receiving any grant aid (SFA0708)</b>	<b>Percent Full-Time, First-Time Students receiving federal loans</b>	<b>Average Federal Student Loan</b>	<b>Percent of Community College Costs Unmet after Aid</b>
Carteret Community College	Participating	\$3,343	\$12,571	16	10	\$2,725	0.79
Catawba Valley Community College	Participating	\$6,616	\$9,298	41	0		0.58
Central Carolina Community College	Not participating	\$3,813	\$12,101	37	0		0.76
Central Piedmont Community College	Not participating	\$1,667	\$14,247	71	0		0.90
Cleveland Community College	Not participating	\$3,607	\$12,307	60	0		0.77
Coastal Carolina Community College	Not participating	\$2,094	\$13,820	55	0		0.87
College of the Albemarle	Not participating	\$3,250	\$12,664	56	0		0.80
Craven Community College	Participating	\$1,820	\$14,094	77	6	\$4,127	0.89
Davidson County Community College	Participating	\$3,231	\$12,683	48	5	\$2,379	0.80
Durham Technical Community College	Not participating	\$2,038	\$13,876	53	0		0.87
Edgecombe Community College	Participating	\$2,951	\$12,963	81	16	\$3,745	0.81
Fayetteville Technical Community College	Participating	\$3,974	\$11,940	47	32	\$4,212	0.75
Forsyth Technical Community College	Not participating	\$3,341	\$12,573	36	0		0.79
Gaston College	Not participating	\$3,204	\$12,710	43	0		0.80
Guilford Technical Community College	Participating	\$3,673	\$12,241	52	11	\$4,382	0.77
Halifax Community College	Not participating	\$3,797	\$12,117	52	8	\$3,225	0.76
Haywood Community College	Not participating	\$3,844	\$12,070	35	0		0.76
Isothermal Community College	Not participating	\$3,128	\$12,786	76	0		0.80
James Sprunt Community College	Participating	\$2,063	\$13,851	85	9	\$2,197	0.87
Johnston Community College	Participating	\$2,001	\$13,913	44	5	\$3,570	0.87
Lenoir Community College	Not participating	\$3,678	\$12,236	66	0		0.77
Martin Community College	Not participating	\$2,412	\$13,502	70	0		0.85
Mayland Community College	Not participating	\$3,566	\$12,348	30	0		0.78
McDowell Technical Community College	Not participating	\$4,260	\$11,654	63	0		0.73
Mitchell Community College	Not participating	\$3,524	\$12,390	41	0		0.78
Montgomery Community College	Not participating	\$2,974	\$12,940	66	0		0.81
Nash Community College	Not participating	\$2,885	\$13,029	52	0		0.82
Pamlico Community College	Not participating	\$1,889	\$14,025	53	0		0.88
Piedmont Community College	Not participating	\$3,505	\$12,409	33	0		0.78
Pitt Community College	Participating	\$3,859	\$12,055	53	10	\$2,669	0.76
Randolph Community College	Not participating	\$3,626	\$12,288	46	0		0.77
Richmond Community College	Not participating	\$5,041	\$10,873	63	0		0.68
Roanoke-Chowan Community College	Not participating	\$3,838	\$12,076	55	0		0.76
Robeson Community College	Not participating	\$3,937	\$11,977	59	0		0.75
Rockingham Community College	Not participating	\$2,911	\$13,003	41	0		0.82
Rowan-Cabarrus Community College	Not participating	\$3,487	\$12,427	50	0		0.78
Sampson Community College	Not participating	\$3,285	\$12,629	30	0		0.79
Sandhills Community College	Participating	\$3,225	\$12,689	61	7	\$4,000	0.80
South Piedmont Community College	Not participating	\$3,774	\$12,140	48	0		0.76
Southeastern Community College	Participating	\$3,239	\$12,675	76	12	\$4,678	0.80
Southwestern Community College	Participating	\$3,377	\$12,537	51	8	\$3,745	0.79
Stanly Community College	Not participating	\$3,675	\$12,239	46	0		0.77
Surry Community College	Participating	\$3,099	\$12,815	57	3	\$2,872	0.81
Tri-County Community College	Not participating	\$2,554	\$13,360	70	0		0.84
Vance-Granville Community College	Not participating	\$2,957	\$12,957	63	0		0.81
Wake Technical Community College	Participating	\$2,691	\$13,223	31	13	\$5,590	0.83
Wayne Community College	Participating	\$3,196	\$12,718	55	10	\$2,206	0.80
Western Piedmont Community College	Participating	\$3,908	\$12,006	62	13	\$2,923	0.75
Wilkes Community College	Participating	\$3,632	\$12,282	65	2	\$1,643	0.77
Wilson Community College	Not participating	\$4,045	\$11,869	53	0		0.75

SOURCE: IPEDS Data Center, 2008-2009. Accessed at: <http://nces.ed.gov/ipeds/datacenter> (a) Four community colleges discontinued their federal student loan programs as of 2009-2010: Beaufort County Community College, Roanoke-Chowan Community College, Sandhills Community College, and Wayne Community College.

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