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How Americans Pay for College

In releasing the first edition of a new annual survey today, Sallie Mae and Gallup hoped to inform the discussion about, as the report is called, [“How America Pays for College.”](#) But as the data readily make clear, that largely depends on which Americans you’re talking about. There are major differences, among family income levels and the types of colleges and universities that students attend, both in what they spend and the sources of money they tap to cover their educational costs.

The report, which is based on a national survey of 684 undergraduate students and 720 parents of traditional-aged undergraduates, offers a wealth of information about what students and families say they spent on college in the 2007-8 academic year, where that money came from, and what role price and other financial factors played in their decisions about where to enroll.

The survey is designed to supplement and expand on existing data — like [the College Board’s annual reports](#) on student aid and tuition, which focus on institutional data, and federal reports from the [National Postsecondary Student Aid Study](#), which contains actual rather than reported data but is published only every few years — and to offer more insight into parents’ and students’ thinking and decisions about college prices.

Among the survey’s overall findings:

- On average, the money to pay for the typical student’s college costs came from the following sources: parents’ income and savings (32 percent), student borrowing (23 percent), parent borrowing (16 percent), grants and scholarships (15 percent) student income and savings (10 percent), and support from friends and relatives (3 percent).
- Just under half (47 percent) of all families reported borrowing to pay for college. Student borrowing from the federal loan programs was the top source of loan funds, with 28 percent of all families borrowing an average of \$5,075 in federal student loans. Only 8 percent of students and 4 percent of parents said they held private education loans, but the amounts were significant: an average of \$7,694 for students and \$6,910 for parents. About 6 percent of parents utilized federal loans for parents.
- Relatively small proportions of students and parents reported using credit cards (3 percent each) to pay for college, and a similar percentage of parents said they had tapped into home equity loans to help cover their child’s tuition and other college payments. But parents who borrowed against their homes did so to the tune of an average of \$10,853 in 2007, and about three-quarters said they intended to do so again in 2008 — which could be significantly more difficult, given the troubles in the housing market.
- Two in five families said that in their search for a college, they did not rule out any institution based on price, even after they received their financial aid awards.

- About a quarter of middle income families did not file the Free Application for Federal Student Aid, potentially leaving government financial aid on the table.

Tom Joyce, senior vice president of corporate communications at Sallie Mae, said that like many examinations of college prices and family finances, the new survey presented a mix of good and bad news, depending on whether one took a half-full or half-empty view. “The No. 1 piece of good news,” Joyce said, is the “overwhelming consensus that college is worth it and that students and families are willing to do what it takes” to pay for it. Overwhelming majorities of both students and families said they saw college as an investment in the future and that they were willing to “stretch financially” — and to borrow — for the best possible opportunity. “Our society has successfully built a higher education expectation into the mix.”

There are numerous “alarm bells” in the findings, though, Joyce said. Many of those show up less in the overall data than when one examines students and families based on income level, the types of institutions they attend, or other factors, he said.

Joyce said that the data made clear, for example, just how much middle-income Americans appeared to be “stretching and choosing more expensive schools.” As seen in the table below, students from families with incomes from \$50,000 to \$100,000 had about half as much grant and scholarship aid as lower-income students did and were taking on a significantly heavier load in terms of borrowing and spending from savings:

Average Spending on College by Family Income, 2007-8

Source of Funds	\$0-\$49,999	\$50,000-\$99,999	\$100,000 or more
Grants/scholarships	\$3,890	\$2,310	\$1,260
Student income/savings	1,780	2,020	1,100
Friends/relatives	490	780	490
Parent income/savings	2,680	4,340	11,410
Parent borrowing	2,390	2,480	3,070
Student borrowing	3,900	4,980	3,710
Total	12,740	16,910	21,040

Joyce said the survey’s sponsors were also struck by the sharp dropoff, at the \$35,000 income level, in the extent to which families applied for federal student aid. While 88 percent of families under that level filled out the FAFSA, only 76 percent of those between \$35,000 and \$50,000 did, and 73 percent of those up to \$100,000. “Those students appear to clearly be leaving Stafford [federal student loans] and [federal parent loans] on the table, and maybe state grants, too. That’s money being left on the table.”

That’s especially concerning if families are turning to higher-cost alternatives instead, which seems particularly

likely at higher-cost institutions, as seen in the table below:

Average Spending on College, by Type of Institution Attended, 2007-8

Source of Funds	2-Year Public	4-Year Public	4-Year Private
Grants/scholarships	\$430	\$2,400	\$5,750
Student income/savings	1,790	1,560	2,210
Friends/relatives	210	740	770
Parent income/savings	2,290	5,850	9,200
Parent borrowing	660	2,310	5,360
Student borrowing	1,130	3,780	7,640
Total	5,493	16,640	30,930

Although it might be seen as relatively good news that comparatively small percentages of parents said they were taking out private student loans, Joyce said, those who are borrowing are borrowing a lot.

Joyce said he was surprised that a large minority of students and families said they did not take the cost of a college into account when deciding where to enroll. “Imagine doing that for a home or a car?” he said, adding that some of those families might avoid digging themselves a hole if they factored costs in.

Robert Shireman, executive director of the Institute for College Access and Success, was struck by a different aspect of those numbers. He noted the study’s finding that 59 percent of Hispanic respondents said they had eliminated colleges from consideration even before applying, compared to 41 percent of white and black respondents. “The idea that people are eliminating colleges based on cost even before they really know what it will cost them” — which wouldn’t be until financial aid packages are derived much later in the process — “means we need to do a lot better job informing people about the aid that’s available much earlier in the process,” Shireman said.

Among the survey’s other findings:

- Only 9 percent of families report using funds from a college savings plan to pay for their child’s education. But of those who did, they averaged about \$8,000. “Those who are using them are using them well and substantially,” said Joyce.
- Half of students who borrowed and 73 percent of parents of those students said the students had taken out loans because the students’ loans had lower interest rates than the federal loans available to parents, known as PLUS loans.

- Asked what most worried them related to paying for college, 60 percent said it was that colleges would raise tuition, 40 percent that student loan money will be less available, and just 13 percent that their loan provider would go out of business.
- Asked which organizations were most helpful in figuring out the financial situation related to college, respondents put the financial aid offices at their child's college at the top of the list, followed by foundations and scholarship groups, and family and friends.

— [Doug Lederman](#)

The original story and user comments can be viewed online at <http://insidehighered.com/news/2008/08/20/pay>.

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